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CHANGES IN SOCIAL AND BUSINESS ENVIRONMENT

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CONFERENCE**

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Selected papers

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PREFACE

The fifth international scientific conference *Changes in Social and Business Environment* (CISABE' 2013) is organized in a truly significant time for the country, as this year Lithuania is heading two events of international importance - presidency of the Council of the European Union and the most recent fact that Lithuania has been elected to the United Nations Security Council for the first time.

Therefore, the community of Kaunas University of Technology Panevėžys Institute Faculty of Management and Administration proudly organizes this conference as a demonstration of interrelation of research and international developments both in Lithuania and the world.

The conference dates back to 2006, since then it has been organized bi-annually, providing a multi-disciplinary forum for researchers, practitioners and policy makers in the field of innovation, entrepreneurship and regional development; reflecting social change and business continuity management. The scholars have been analyzing business change and continuity management challenges, finance and economics, the influence of institutional environment factors, capital structures and innovations, leadership competences, social responsibility problems and higher education policies and issues.

The conference is the result of a collective effort and I would like to take the opportunity to express my appreciation to the people involved. First of all, I would like to thank the authors, speakers, reviewers and participants, whose contribution to the conference made it a success.

CISABE'2013 also provides a platform for face-to-face interaction with colleagues from similar research areas and interests.

The conference proceedings have an ISSN and are listed on: ISI Web of Science (WOS) Conference Proceedings; Citation Index (2007-2009) CEOL and DOAJ Databases.

The conference is organized together with the following partners: Greenwich University (UK), Genova University (Italy), the Baltic International Academy, The University of Lyon School of Management, Yalova University (Turkey), Canakkale Onsekiz Mart University (Turkey), University of Lodz (Poland), Sofia Technical University, University of Latvia and social partners: the Municipality of the City of Panevėžys, Panevėžys Chamber of Commerce, Industry and Crafts, Panevėžys County Gabrielė Petkevičaitė-Bitė Public Library.

The work of the conference is split into two sessions: *Changes in Business Environment* and *Changes in Social Environment*.

I do hope that you have an enjoyable conference.

Prof. Dr. Asta Valackienė, Co-Chair

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A SURVEY TO DETERMINE HOTEL MANAGERS' PERCEPTIONS OF GREEN MARKETING

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Abstract

How managers perceive green marketing in tourism is one of the most important factors for enterprises in becoming green establishments. The aim of the study is also to determine managers' perceptions of green marketing. In this regard, the study investigated the hotel managers' perceptions of green marketing in Antalya. The data on the hotel managers' views were collected through surveys and it was determined that the measurement tool developed through the study had an internal consistency reliability between 0.83 and 0.91. Therefore, it can be stated that the scale has a high level of reliability. It was determined that the hotel managers' perceptions of green marketing varied, depending on the locations, types of the hotels, and the managers' years of experience in management in the tourism sector.

Keywords: green marketing, hotel managers' perception of green marketing.

JEL Classification: M31, Q51, Q56.

The research problem could be formulated as follows – Green marketing is getting more common and aims to preserve environment. Tourism has very strong link with environment and green is very vital for tourism destination. Like other business unites hotels are supposed to use green marketing tools. In Turkey only 22 Hotels have green star label in Turkey and it is very few. Because of shortage on hotels with Green labels in Turkey, the reason of why hotels are not applying green marketing is a question. Understanding the perception of hotels managers is import to improve the green marketing implementations of hotels. So, the question is as follows: what are the perceptions of hotels managers about green marketing in leading destinations.

The aim of the article is to determine the hotel managers' perception of green marketing. How managers perceive green marketing in tourism is one of the most important factors in enterprises' becoming green establishments. With regard to this aim, this study investigated how the hotel managers working in the tourism sector perceived green marketing. Considering that the concept of green hospitality has been used in Turkey especially in recent years, it is believed that the study will contribute greatly to the related literature and the sector.

Methodology of the research. The model of this study is a descriptive field study. These kinds of studies are stated to be as applied research based on usually examination of recent issues in detail and conducted considering its benefit in practice (Ural and Kılıç, 2005). This study, in accordance with the descriptive model, revealed the relationship between the location of accommodation facilities and perceptions of green marketing, types of facilities and perceptions of green

marketing and then determined the degrees of the relationships. Through this research model, as expressed by Kurtuluş (2004), it was aimed to determine the degree of relationship between two or more variables. The figure below shows the research model of the study.

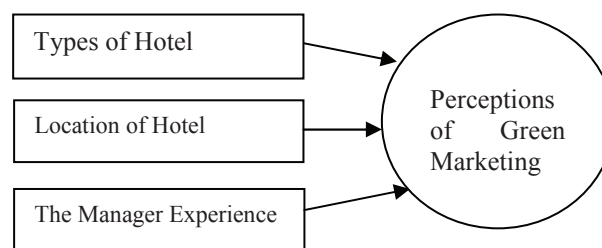


Figure 1. Research Model

The research hypotheses are stated as follows in accordance with the aim of the study:

H₁: Whether hotels are International and national chain, or sole proprietorship this has an effect on the perception of green marketing.

H₂: The location of the hotels has an effect on the perception of green marketing.

H₃: Hotel managers' working time as managers in the tourism industry has an effect on the perception of green marketing.

The survey form was developed through the questions compiled from the studies conducted by David Kirk (1998), Ismael Mensah (2006), Erdogan and Barış (2007) and the questions created by the researchers, focusing on the practices conducted in the tourism industry.

The measurement instrument included 18 items in 5-point Likert-style. The statement "I strongly disagree"

was scored "1", while the statement "I strongly agree." was scored "5". Based on the results of the item and internal consistency reliability analyses, item 11 was removed and the scale finalized included 17 items. This measurement instrument was defined by the researcher as "the perception of green marketing". Moreover, the study included the questions identifying respondents, such as types of hotels, managers' levels of education, and their experience in management as well as the questions related to the perception of green marketing.

The population of the study is all the 5-star accommodation facilities in and around Antalya city centre. According to the data provided TUROB (Touristic Hotels and Investors Association), there are 242 five-star accommodation facilities in total in Antalya (<http://www.turob.com/istatistikler.aspx>). All the efforts were made to contact all of these 242 hotels to determine the perception of green marketing in the study; however, only 126 of these hotels provided feedback. The data were tried to be collected through Professional Hotel Managers Association (POYD); however, as the questionnaire response rate was not sufficient, the questionnaires were done through face-to-face, e-mails, and telephones.

Literature Review

When the related literature is reviewed, it is noticed that there are various studies conducted within the context of the relationship between tourism and environment. For instance, the study conducted by Kirk (1998) with the participation of the hotel managers in Edinburgh (Scotland) investigated whether any relationship existed between the managers' attitudes towards environmental management and the characteristics of the hotels (types, sizes, and the number of stars etc.). The findings of the aforementioned study revealed that there was not any relationship between the hotels with the written environmental policy and the characteristics of these hotels. However, the hotel managers stated that having an environmental policy had a positive effect on the activities regarding customer relationships and proved to be useful considering financial and marketing perspectives. Based on the results of the correlation analyses conducted in the section of data analysis in the study, it was determined that in general, the hotel managers had positive attitudes towards environmental management.

Another study is the one conducted by Mensah (2006) with the participation of 52 managers of various hotels in Ghana to investigate the environmental management in accommodation establishments and sustainable tourism practices. This study revealed that there was a large body of research on the environmental management practices, especially in North America, Europe, and Asia. However, given that these practices were not acknowledged and stressed sufficiently in developing countries such as Ghana, the study investigated the hotel managers' activities regarding environmental management. The chi-square test results obtained in the data analysis section of the study indicated that the hotel managers in different hotel

categories showed efforts to create a secure, clean, and healthy environment regarding environmental management practices and supported the view that this would play an important role in the future of tourism. Gallarza and his friends (2013) indicated the link between environmental quality and satisfaction.

There are also studies conducted to investigate the practices of the hotels regarding the relationship between tourism and environment in Turkey, one of the developing countries. It is noteworthy to mention the study conducted by Erdoğan and Barış (2007), among the related studies, which investigated the practices of the hotels in Ankara to protect the environment. This study, like the study conducted by Mehsah (2006) is important in that it indicates how environmental management is handled by accommodation establishments in Turkey, a developing country. In this study, the environmental practices of the hotels such as purchasing, waste management, and use of energy and water were investigated and the analyses conducted indicated that these practices were insufficient. It was further acknowledged that the hotel managers had insufficient knowledge in response to fulfilling social and environmental responsibilities.

Another study conducted by Eren and Yılmaz (2008) to investigate the environmental practices of the hotels in and around Nevşehir provided results similar to those obtained by Erdoğan and Barış. In this study, it was determined that the hotels did not have written environmental policies, thereby leading to insufficient green hospitality practices.

Considering the tourism mobility in the region of Antalya, its being the tourism capital of Turkey, and having the potential to shape the future of tourism in Turkey, the study investigated the five-star hotel managers' attitudes towards green marketing. The study is believed to contribute to the literature considering that it will be the very first study conducted to determine the accommodation establishment managers' perceptions of green marketing in Turkey.

Findings of Survey

The following table provides the frequencies and percentages regarding the demographic characteristics of the participants. As indicated in Table 1, 61% of the hotel managers that responded to the questionnaire work as general managers. This high number of general managers is crucial in terms of a better understanding of the perception of green marketing.

Table 1

The Distribution of the Managers Based on Responsibility

| Positions | Number (n) | Ratio (%) |
|---------------------------|------------|-----------|
| Hotel Manager | 77 | 61.1 |
| Vice Manager | 15 | 11.9 |
| Front Office Manager | 11 | 8.7 |
| Marketing & Sales Manager | 16 | 12.7 |
| Human Sources Manager | 5 | 4 |
| Other | 2 | 1.6 |
| Total | 126 | 100 |

The distribution of the managers based on their level of education is provided in another table (Table 2). 56% of the managers have a B.A. degree. The number of the managers with a M.A. degree is approximately 24%. It can be stated that the managers' high level of education is an important factor in environmental awareness.

Table 2

The Distribution of the Managers Based on Level of Education

| Education Level | Number (n) | (%) |
|---------------------|------------|------|
| Secondary Education | 8 | 6.3 |
| Associate's Degree | 5 | 4 |
| Bachelor | 70 | 55.6 |
| Master | 30 | 23.8 |
| PhD | 13 | 10.3 |
| Total | 126 | 100 |

The data collected from 126 of 5-star 242 accommodation facilities in and around Antalya were subject to item, internal consistency, and exploratory factor analyses and as a result, two sub-dimensions of the scale were obtained. The analyses, within the context of item-factor analysis were carried out through both exploratory factor analysis and item analysis with a rotational basis. First, the scales were subject to exploratory factor analysis to determine construct validity and factorial structure, which was followed by the item and internal consistency reliability analyses. Item analyses were carried out for each dimension and internal consistency reliability coefficients were calculated. With this aim in mind, the item-total correlations and Cronbach's alpha internal consistency coefficients were calculated and various statistical values were obtained. The results of these item analyses are provided between Table 3 and Table 7.

The scale includes 18 items in total that aim to determine five-star hotel managers' perceptions of green marketing and these items are collected in two sub-dimensions, namely, economic and social awareness, and environmental awareness. Item 11 of the scale was excluded from the analysis as it indicated a correlation below 0.20 item-total score correlation and the analyses were carried out on 17 items in total. Based on the item analysis conducted for both sub-dimensions, internal consistency coefficients were determined as $\alpha=.91$ for the sub-dimension of economic and social awareness and as $\alpha=.83$ for the sub-dimension of environmental awareness.

As shown in Table 3, all items indicated a high level of item total score correlation that is higher than 40 in the sub-dimension of economic and social awareness. Especially Item 10 "It helps in public relations activities" and Item 3 "Green marketing process applies to each department" showed the highest level of item-total score, while Item 2 "It has a negative effect on consumers' purchasing behaviour" and Item 6 "It reduces profitability in the long term" indicated the lowest level item-total score at 0.47. t showed 0:47. The internal consistency reliability coefficient of the economic and social awareness sub-dimension that included 11 item in totals was determined as $\alpha = .91$ for the entire sample. The scale variation of this sub-dimension was determined

as 28.7; the average was calculated as 49.4, and the standard deviation as 5.3. These results reveal that the hotel managers perceive green marketing as both an important instrument in terms of economy and a social factor that contributes to the development of the region.

Table 3

The Results of the Item Analysis on Economic and Social Awareness" Sub-dimension

| | Scale Average =49.4444 | Scale Variance =28.7609 Standard Deviation =5.3629 | Number of Items =11 | Scale Alpha =.9143 |
|---------|-----------------------------------|---|------------------------------|---------------------------|
| Item No | Scale Average After Item Excluded | Scale Variance After Item Excluded | Item Total Score Correlation | After Item Excluded Alpha |
| Y1 | 44.9524 | 23.1017 | .7816 | .9005 |
| Y2 | 44.8095 | 24.5554 | .4773 | .9179 |
| Y3 | 44.9048 | 23.8149 | .8007 | .9007 |
| Y4 | 44.6587 | 25.2026 | .7131 | .9066 |
| Y5 | 45.2222 | 22.5742 | .6988 | .9059 |
| Y6 | 44.6587 | 25.9226 | .4730 | .9151 |
| Y7 | 45.0873 | 24.5443 | .6327 | .9083 |
| Y8 | 44.8175 | 24.9344 | .7134 | .9060 |
| Y9 | 45.1508 | 22.2411 | .7784 | .9006 |
| Y10 | 44.9206 | 23.5937 | .8001 | .9003 |
| Y14 | 45.2619 | 23.2189 | .6523 | .9081 |

The results of the item analysis conducted on the second sub-dimension of the scale "environmental awareness are provided in Table 4.

The most representative of this dimension was Item 13, "Green marketing is a marketing approach that focuses on environment". The scale variation of the sub-dimension of environmental awareness whose scale average was 26.1 was calculated as 9.4 and the standard deviation was determined as 3.07. These statistical data indicate that hotel managers view environment as one of the most important aspects of tourism and they are aware of the fact that without respecting the environment it is not possible to exist in the future.

When a general evaluation of the item analyses is made, it is seen that the two sub-dimensions of the scale have higher internal consistency reliability coefficients than expected. Murphy and Davidshofer (2005: 150) state that the minimum value accepted in the measurement literature is 0.70 estimated coefficient of reliability. In this regard, it was determined that the measurement instruments developed in this study indicated internal consistency reliability coefficients of 0.83 and 0.91. Therefore, it can be stated that the scale has a high level of reliability.

Table 4

The Results of the Item Analysis on "Environmental Awareness" Sub-dimension

| | | | | |
|---------|-----------------------------------|--|------------------------------|---------------------------|
| | Scale Average =26.1825 | Scale Variance =9.4784 Standard Deviation =3.0787 | Number of Items =6 | Scale Alpha =.8329 |
| Item No | Scale Average After Item Excluded | Scale Variance After Item Excluded | Item Total Score Correlation | Alpha After Item Excluded |
| Y12 | 21.7381 | 6.8669 | .5527 | .8170 |
| Y13 | 21.4048 | 7.5069 | .7094 | .8015 |
| Y15 | 21.9127 | 6.3683 | .6695 | .7921 |
| Y16 | 21.6508 | 6.3731 | .5913 | .8121 |
| Y17 | 22.7302 | 6.9666 | .5610 | .8147 |
| Y18 | 21.4762 | 6.7314 | .6448 | .7979 |

Comparisons between the Perception of Green Marketing and the Location of Hotels:

The comparisons of the averages in total scores in the scale and the two sub-dimensions were analyzed through independent samples t-test considering the location (city centre or the coastal city) of the accommodation facilities where the participants worked. It was also investigated whether the type of accommodation establishments in 26 cities and 100 coastal hotels, as group variables, differed significantly in the average scores of the sub-dimensions of economic and social awareness and environmental awareness. Statistically significant differences were found to exist in all sub-dimensions considering the averages of the hotels being city hotels and coastal hotels (Table 5).

Considering the scores of these two sub-dimensions, it is seen that coastal hotels obtain higher scores from green hospitality practices than the city hotels. This difference, in sum, indicates that coastal hotels, compared to city hotels, enjoy both the advantage of their location as to being green hotels and they are one-step ahead in perceiving green marketing. This might be attributed to the fact that coastal hotels adopt a higher level of sustainable tourism reflex than city hotels as they follow a marketing strategy based more on mass tourism. Another factor is that coastal hotels have more physical advantages than city hotels in the investments in the process of being green hotels (solar energy, waste treatment facilities, etc.). since coastal hotels are established on large land areas.

Table 5

The Results of the Independent Samples t-test between the Dependent Variables of the Location of the Accommodation Facilities that the Managers Work for and the Perception of Green Marketing

| Fac | Location of Hotel | Average | Standard Deviation | T Value | P (two ended Test) |
|-----|--------------------------|--------------------|--------------------|---------|--------------------|
| 1E | City Hotel Res. Hotel | 46.5385 50.2000 | 5.75660 5.01513 | -3.215* | .002 |
| 2E | City Hotel Res. Hotel | 24.4615 26.6300 | 4.72636 2.31226 | -2.270* | .031 |

Fac= Factor
1E= Economic and Social awareness
2E= Environmental awareness

Comparisons between the perception of green marketing and the Types of Hotels:

Five sub-dimension total scores of accommodation facilities being international, national, or sole proprietorship hotels and green hospitality practices were compared through one-way analysis of variance. The most important assumption of a parametric analysis of variance, the assumption of homogeneity of variance was fulfilled for the scores of economic and social awareness and environmental awareness. Table 6 provides the results of one-way analysis of variance conducted on the average scores of the two sub-dimensions.

Table 6

The Results of One-way ANOVA Scores Obtained in the Scales of Types of Hotels and Green marketing

| | Int.l Hotel Chain (n= 55) | | Individual Hotel (n= 12) | | National Hotel Chain (n= 55) | | Anova Fvalue | Multiple Comparisons |
|----|---------------------------|------|--------------------------|------|------------------------------|------|--------------|--------------------------|
| | ave | s.d | Ave | s.d | Ave | s.d | F | |
| 1E | 50.89 | 5.01 | 44.17 | 5.13 | 49.11 | 5.17 | 8.764*** | Int.- Ind. Ind.- Nat. |
| 2E | 26.84 | 2.8 | 23.08 | 5.2 | 26.25 | 2.22 | 8.117*** | Int.- Ind. Ind.- Nat. |

1E= Economic and Social awareness
2E= Environmental awareness

As can be seen in Table 6, statistically significant differences were found between the averages of total scores in types of hotels and the awareness mentioned before. A multiple-comparison post-hoc test, Turkey HSD was conducted to determine which types of hotels differed significantly from each other and it was determined that international chain hotels differed from sole proprietorship hotels in the dimension of economic and social awareness, while sole proprietorship hotels differed from national chain hotels. This reveals that the managers' perceptions of green marketing differ in the dimension of economic and social awareness depending on the different hotels where they work. National and international chain hotels differ from sole proprietorship hotels in providing services of the same quality and standard to their customers everywhere, customer focus and long-term policies, and also in becoming green establishments. However, international chain hotels show differences compared to national chain hotels, though little. Therefore, considering the types of hotels, it can be stated that international chain hotels carry out their activities by adopting a greener approach compared to others.

The Comparison of the Participants' Work Experience as Managers and the Perception of Green Marketing:

Another between-groups comparison was made in the study between the participants' work experience as managers (less than 5 years, 6-10 years, 11-15 years, and 15 years and more) and the perception of green marketing at the level of total scores in two sub-dimensions. Three participants stated that they had less than 5 years of experience as managers and these participants in this group were excluded from the analysis. The analyses were carried out through one-way analysis of variance.

As indicated in Table 7, statistically significant differences were found in-group comparisons made between the total scores of economic and social awareness, and environmental awareness and the years of experience in tourism industry as managers (6-10 years, 11-15 years, and 15 and more years). A multiple-comparison (post-hoc) test, Turkey HSD was conducted to determine which years of experience differed significantly from each other. It was determined that the participants with 6 to 10 years of experience differed from the participants with 11 to 15 years of experience, and the participants with 6 to 10 years of experience differed from the participants with 15 and more years of experience in these three sub-dimensions, including economic and social awareness and environment awareness. However, in two sub-dimensions mentioned, there was not any statistically significant difference between the participants with 11 to 15 years of experience and the participants with 15 and more years of experience. This indicates that no matter what level of experience that the managers might have in the industry, the most important and absolute denominator is to reduce costs. In other words, the managers are aware of the economic advantage of green hospitality practices.

Table 7

The Results of One-way ANOVA Scores Obtained in the Scales of Years of Experience in Management and the Perception of Green Hospitality

| | 6-10 years (n= 22) | | 11-15 years (n= 36) | | 15 years and + (n= 65) | | Anova F Val. | Multiple Compariso ns |
|----|-----------------------|------|------------------------|------|------------------------------|------|-----------------|---|
| | av | s.d. | av | s.d. | av | s.d. | F | |
| 1E | 44.9 | 5.8 | 49.5 | 5.1 | 51.2 | 4.2 | 14.308 *** | 6-10 years different 6-10 years and over 15 years |
| 2E | 24.5 | 3.1 | 26.6 | 2.3 | 26.6 | 3.2 | 4.405* | 6-10 years different 6-10 years and over 15 years |

*p<.05; **p<.01; ***p<.001

1E= Economic and Social awareness

2E= Environmental awareness

Conclusion and Suggestions

Green marketing concept, a product of the effort to solve the ecological crises by remaining in the system, has evolved with the idea that it is not possible to eliminate the existing system. According to this idea, improving the system that caused the crisis in favour of

nature and the environment, or being aware of the ability to improve it will help taking concrete steps. For instance, it can be stated that Grant's (2008) Green Marketing Manifesto emerged from this point. In fact, the author, in this book touches upon the fact that the current system (capitalism) can be transformed and even marketing, on the right side of capitalism, will be the most important tool in achieving this transition.

Today, the green marketing concept has been acknowledged by many enterprises and regarded as the starting point for the solution of the crisis (Dieke, 2011) Green marketing concept, providing cost-savings to the enterprises in the long term leading to a competitive advantage in the current market, enables enterprises to create a positive impact on consumers' purchasing behaviour. This leads enterprises to pay more attention to green marketing concept day by day and to better understand this marketing strategy. In this regard, in addition to its positive economic effects, green marketing contributes to the transformation of the current system in terms of ecology, which is crucial to keep both the enterprises and the environment sustainable.

Today, enterprises are well aware of the fact that they cannot keep their existence without being sensitive to environmental issues, no matter in which industry they are. For example, 70% of the materials used by Hipp, the largest food company in Germany, are ecological. Britain's biggest supermarket group, Tesco, sell green products in 145 of its 600 stores (Ekinici, 2007: 76). International chain hotels in the service industry such as Four seasons, Best Western, and Accor Group both obtain significant cost savings and contribute to the protection of the environment by taking advantage of renewable energy sources.

The current study investigated how the enterprises in the tourism industry perceived green marketing. In this vein, how the managers of the accommodation facilities in Turkey perceived green marketing was investigated. With this aim in mind, the five-star hotels located in Antalya, where the mass tourism is the most intense and which is regarded as the capital city of tourism in Turkey, were analyzed. In this analysis, the effects of types of accommodation facilities, locations, and the managers' years of experience on the perception of green marketing were investigated. The results obtained are as follows:

- The types of accommodation facilities have an effect on the perception of green marketing. That is, accommodation facilities being national or national chain enterprises help internalize green marketing.
- It was determined that the managers that worked for accommodation facilities viewed green marketing as the most important factor in reducing the costs, regardless of their years of experience in the sector.

As a result, it is crucial for Antalya and its surroundings, which is regarded as the tourism capital of Turkey, to internalize the concept of environment-oriented tourism. Of all the accommodation facilities located in Turkey, 22 have the Green Star Certificate given by the Ministry of Tourism and the number of the five-star hotels that have this certificate in and around Antalya is only 6. The study also reveal that the

enterprises, in general, have environmental policies, invest in water conservation, and work in collaboration with the local authorities regarding waste management. This can be attributed to the fact that accommodation facilities view the environment and environmental practices as a competitive advantage in the current market. Therefore, it is important to increase the number of the hotels with green star certificates in the long run in terms of the future of the tourism in and around Antalya.

Some suggestions can be put forward for further research. In this regard, further research can focus on regional comparisons considering the tourism intensity. Furthermore, hotel customers' satisfaction with green hospitality practices can be investigated. Thus, in countries developing and willing to benefit greatly from tourism in the future, such as Turkey, it will be possible to deal with all aspects of green marketing and evaluate the concept of sustainable tourism not only locally but also all around the country.

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Lütfi Atay, S. Emre Dilek

A SURVEY TO DETERMINE HOTEL MANAGERS' PERCEPTIONS OF GREEN MARKETING

Summary

How managers perceive green marketing in tourism is one of the most important factors in enterprises' becoming green establishments. The aim of the study is also to determine managers' perceptions of green marketing. In this regard, the study investigated the hotel managers' perceptions of green marketing in Antalya. With regard to this aim, this study investigated how the hotel managers working in the tourism sector perceived green marketing. Considering that the concept of green hospitality has been used in Turkey especially in recent years, it is believed that the study will contribute greatly to the related literature and the sector.

The model of this study is a descriptive field study. These kinds of studies are stated to be applied research based on usually examination of recent issues in detail and conducted considering its benefit in practice. This study, in accordance with the descriptive model, revealed the relationship between the location of accommodation facilities and perceptions of green marketing, types of facilities and perceptions of green marketing and then determined the degrees of the relationships. Through this research model, it was aimed to determine the degree of relationship between two or more variables. The figure below shows the research model of the study.

The measurement instrument included 18 items in 5-point Likert-style. The statement "I strongly disagree" was scored "1", while the statement "I strongly agree." was scored "5". Based on the results of the item and internal consistency reliability analyses, item 11 was removed and the scale finalized included 17 items. This measurement instrument was defined by the researcher as "the perception of green marketing". Moreover, the study included the questions identifying respondents, such as types of hotels, managers' levels of education, and their experience in management as well as the questions related to the perception of green marketing.

The current study investigated how the enterprises in the tourism industry perceived green marketing. In this vein, how the managers of the accommodation facilities in Turkey perceived green marketing was investigated. With this aim in mind, the five-star hotels located in Antalya, where the mass tourism is the most intense and which is regarded as the capital city of tourism in Turkey, were analyzed. In this analysis, the effects of types of accommodation facilities, locations, and the managers' years of experience on the perception of green marketing were investigated. The results obtained are as follows:

- The types of accommodation facilities have an effect on the perception of green marketing. That is, accommodation facilities being national or national chain enterprises help internalize green marketing.
- It was determined that the managers that worked for accommodation facilities viewed green marketing as the most important factor in reducing the costs, regardless of their years of experience in the sector.

As a result, it is crucial for Antalya and its surroundings, which is regarded as the tourism capital of Turkey, to internalize the concept of environment-oriented tourism. Of all the accommodation facilities located in Turkey, 22 have the Green Star Certificate given by the Ministry of Tourism and the number of the five-star hotels that have this certificate in and around Antalya is only 6. The study also reveal that the enterprises, in general, have environmental policies, invest in water conservation, and work in collaboration with the local authorities regarding waste management. This can be attributed to the fact that accommodation facilities view the environment and environmental practices as a competitive advantage in the current market. Therefore, it is important to increase the number of the hotels with green star certificates in the long term in terms of the future of the tourism in and around Antalya.

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CAPITAL STRUCTURE AND INNOVATION: A STUDY OF BALTIC LISTED COMPANIES

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Abstract

Innovation is the basis for competitiveness, but at the same time, innovation usually requires a large amount of capital and the company might not have the necessary means to finance the innovative projects. The aim of the study is to evaluate the relationship between innovation and capital structure. In the case of 24 Baltic listed consumer goods companies, it was found that innovation increases with the increase in total debt, whereas the increase in debt is associated with decrease in profitability. In the case of Latvian company JSC Grindeks, there is a non-linear relationship between capital structure and innovation. The level of innovation is low at very low and very high levels of debt. For JSC Grindeks, the level of innovation is maximized if the ratio of total debt is approximately 30%.

Keywords: capital structure, innovation, intangible assets, profitability.

JEL Classification: G32, O16, O31.

Introduction

"We cannot solve a problem by using the same kind of thinking we used when we created them". Albert Einstein.

Innovation is the basis for competitiveness. Innovation is crucial for countries and companies for their survival and growth. With the help of innovation, it is possible to create value, to streamline the organization, to create intellectual property, to achieve a heightened competitive advantage, etc. The importance of innovation and innovative companies is especially significant in the light of recent economic turmoil. Innovative companies create new jobs, offer more valuable products to the customer, increase exports, etc. However innovation usually requires a large amount of capital and companies might not have the necessary means to finance the innovation activities. In addition, innovation projects are usually long-term rather than short-term, it means that returns are usually received years after initial investment. Therefore, it is important to understand and analyse whether there is any relationship between innovation and company capital structure.

The **aim of the study** is to evaluate the relationship between innovation and capital structure. The **tasks of the research** are as follows:

- to overview the results of previous research;
- to overview the innovation indicators;
- to evaluate the relationship between innovation and capital structure;
- to make conclusions and work out recommendations on the relationship between innovation and capital structure.

The analysis is conducted on a sample of 24 listed companies in the consumer goods industry (Baltic Stock

Exchange) and 1 Latvian company JSC Grindeks over the period from 2005 to 2011. In the research paper, the following qualitative and quantitative **methods of research** are applied: the monographic method, graphical method, descriptive statistics, correlation analysis and regression analysis. The research is based on published papers on innovation and capital structure, as well as information provided by the Baltic Stock Exchange.

Correlation and multiple regression analyses are carried out using the Statistical Package for the Social Sciences (SPSS) and Eviews.

Literature review

Innovation studies started to emerge as a separate field of research in the 1960s (Fagerberg, 2003). Since then a sizeable amount of literature on innovation has been developed (Fagerberg et al., 2012).

Some studies explore the characteristics of innovative companies. Ayyagari et al. (2011) stated that more innovative companies are large exporting companies characterized by private ownership, highly educated managers with mid-level managerial experience, and access to external finance. De Mel et al. (2009) developed a model of innovation which incorporates the role of both owner and firm characteristics. As predicted by the model, firm size was found to have a stronger positive effect, and competition a stronger negative effect on process and organizational innovations than on product innovations. Owner ability, personality traits, and ethnicity are found to have a significant impact on the likelihood of a firm innovating. Mané et al. (2013) found that the introduction of process innovations yields an extra productivity growth. Murro (2013) analysed the determinants of innovation and found that riskiness of company reduces the tendency to

innovate for the companies. The findings by Hashi and Stojic (2013) show a positive relationship between innovation activities and productivity. In addition, larger companies are more likely to embark on innovation activities and invest more in innovation. Al-Najjar and Elgammal (2013) found that credit ratings are improved by innovation. However, companies with more innovation activities than internal optimum level have lower ratings.

Due to the recent economic recession, several studies analyse the changes in innovation within the business cycle. Huhtala (2011) found that customer orientation and interfunctional coordination play an accentuated role in building innovation capability and achieving solid business performance when the economy is booming, whereas competitor orientation was found to play a more significant role during downturn. The current crisis has substantially reduced the number of firms willing to increase their innovation investment, from 38% to 8%, as emphasized by Archibugi et al. (2012). Before the economic downturn, firms expanding their innovations were well-established, engaged in formal research activities both internally and as a purchase; exploited strong appropriability conditions, collaborated with suppliers and customers. During the economic downturn the firms are smaller than before, collaborating with other businesses, exploring new market opportunities, using methods of technological appropriation, and less likely to compete on costs. Lopez – Garcia et al. (2012) stated that the share of R&D spending over total investment is countercyclical without credit constraints, but this cyclical behaviour could be reversed as firms face tighter financial constraints. Archibugi et al. (2013) found that the crisis led to a concentration of innovative activities within a small group of fast growing new companies and those companies already highly innovative before the crisis.

Many papers are published on innovation and capital structure. Rossi (2005) stated that patenting firms have lower leverage, cut retained earnings, pay more dividends, make more acquisitions, cut short-term debt, and invest more in R&D. That suggests that patenting firms grow very successfully and do not resort to external capital markets because of their high internal cash flows. Similar results are also provided by Andersen (2005) - firms pursuing an innovation strategy maintain lower financial leverage.

Aghion et al. (2004) found a nonlinear relationship – firms that report positive but low R&D use more debt finance than firms that report no R&D, but the use of debt falls with R&D intensity among those firms that report R&D.

Negative relationship between R&D investments and capital structure is found by Hsu (2011) and in this paper it is explained that R&D investments create intangible assets and cannot serve as good collateral. Results by Bartoloni (2013) indicate that a firm's leverage is caused by both innovation and profitability, while no causal effect is registered from a firm's leverage to either profitability or to a measure of innovation output. The need for external finance increases with the innovative effort.

To sum up, most studies confirm a negative linear relationship between innovation and capital structure. Nevertheless, some studies also find a non-linear relationship. In the last 50-60 years, an enormous number of publications have been written on innovation, innovative companies and their characteristics, however, many questions still remain.

Innovation indicators

Eurostat defines innovation as the use of new ideas, products or methods where they have not been used before. For the Community Innovation Survey (CIS), an innovation is defined as a new or significantly improved product (good or services) introduced to the market, or the introduction within an enterprise of a new or significantly improved process.

The concept of innovation is interpreted differently among statisticians, economists and entrepreneurs and this often causes an inaccuracy in innovation accounting. The reasons for the difficulty in producing accurate innovation statistics are to do not only with the failure in the interpretation of the concept of innovation, but also with the complexity and dynamism of the innovation process (Jesilevska, 2012).

In literature, a wide range of different innovation indicators exist. For example, Kleinknecht et al. (2002) characterize common innovation indicators, and their strengths and weaknesses. They review R&D efforts, patents and patent application, total innovation expenditures, sales of imitative and innovative products, new product announcements and significant (or basic) innovation. A different grouping of innovation metrics is provided by Kotler and de Bes (2011):

- Economic metrics measure the positive or negative results of innovation using variables from the company's financial statements;
- Intensity refers to the quantity of innovation without taking into account the results;
- Effectiveness to measure profits in relation to the use of the resources with the objective of maximizing innovation outputs, while minimizing inputs;
- Culture metrics refer to aspects related to the creative culture of the organization.

In empirical research on innovation and company performance, several indicators are commonly used as a proxy for innovation:

- Kuniy et al. (2010) for each company in a sector of industry calculated the R&D intensity as the ratio between R&D expenses and sales. The innovative variable of a company is the percentile of its R&D intensity in the sector;
- Bartoloni (2013) used a dichotomous variable as a proxy for a firm's successful innovation. This variable is based on the Community Innovation Survey and assumes a value of one if the firm has introduced technological innovation and zero otherwise;
- Hsu (2011) measured innovation by R&D expenditures to total assets;
- Aghion (2004) used R&D firm dummy (a dummy variable equal to one if R&D expenditure is reported

to be positive in at least one year and equal to zero otherwise);

- Feeny and Rogers (2001) used firms' investment in R&D and applications for patents, trademarks and designs;
- Kraft and Czarnitzki (2002) used three different measures of innovative activity: R&D, the patent stock and sales of recently developed products.

One can conclude that the vast majority of research is done using R&D expenses as a basis for innovation indicator. R&D figures are available since the 1950s, and they are the most popular innovation indicator (Kleinknecht et al., 2002). However, the use of R&D is limited in the Baltic countries for several reasons, for example:

- The companies rarely have R&D departments;
- The innovation process is generally an unsystematic search-and-learning process (Sundbo, 1997);
- Reporting of R&D expenditure is not mandatory (for instance, it became compulsory for large and medium-sized U.K. firms in 1989 (Aghion et al., 2004)).

Innovation is hard to measure. It is possible to measure inputs (for example, widely used R&D expenses), however, it is not possible to measure output precisely. Surveys can capture the numeric value of innovation only vaguely; because it is filled in by a human and biases are due to appear. Innovation is broader than R&D or patents.

Therefore, taking into consideration the vast majority of different innovation indicators and diverse innovation methodologies, their strengths and weaknesses, it is possible to conclude that a particular indicator or methodology at the moment does not exist, which would be recognized as the best way to measure and analyse innovation. All indicators are based only on approximate calculation and assumption.

Considering the afore mentioned and the available data, the authors of this study use intangible assets as a proxy for innovation (in particular, the ratio of intangible assets against the total assets of the company). This decision is based by the fact that although research and development (R&D) costs are not in themselves intangible assets, however, R&D activities frequently result in the development of something that is patented or copyrighted, which in turn is included in the balance sheet as an intangible asset. Intangible asset is an identifiable non-monetary asset without physical substance. Examples of possible intangible assets include: computer software, patents, copyrights, motion picture films, customer lists, and mortgage servicing rights, licenses, import quotas, franchises, and customer and supplier relationships, marketing rights (Deloitte, 2013). These afore mentioned examples of intangible assets can for the most part be considered as innovation indicators as well.

Several authors have already explored the use of intangible assets. Andrews and de Serres (2012) explored

the growing importance of intangible assets as a potential source of innovation and productivity gains. The importance of intangible capital has been rising steeply in OECD and emerging economies with implications for innovation and economic growth. Another view is that there are two types of intangible assets: those that are purchased, and those that are internally generated. R&D costs fall into the category of internally generated intangible assets; therefore it is possible to establish that expenditure on R&D can fall into the category of intangible assets (ACCA, 2007).

Also SFAS (Statement of Financial Accounting Standards) No. 142 (2001) classifies intangible assets as:

- R&D costs;
- Software development;
- Patents and copyrights;
- Brands and trademarks.

Li and Liu (2012) derived the relation between a firm's stock return and its intangible assets under the intangible-asset-augmented q-theory framework. The q-theory augmented with intangible assets captures the value premium and the relation between R&D intensity and stock returns significantly better than the conventional q-theory.

Table 1 summarizes the strengths and weaknesses of ratio of intangible assets as a proxy for innovation.

Table 1
Strengths and weaknesses of ratio of intangible assets as a proxy for innovation

| Strengths | | Weaknesses | |
|-----------|--|------------|--|
| ✓ | Data available (balance sheet) | - | Rough approximation and assumption of (possible) innovation output |
| ✓ | The use of ratio makes the indicator more comparable | - | Based on accounting data, which may be incorrect or prepared in accordance to divergent accounting standards |
| ✓ | Information is classified in much detail | - | Does not cover all innovation output |
| ✓ | Covers a large variety of innovation inputs/outputs | | |

Source: prepared by the authors of the paper.

Therefore the authors of this study use ratio of intangible assets against the total assets of the company as a proxy for innovation.

Sample and research methodology

The study is based on the financial data collected from the financial statements of 24 Baltic listed companies. Figure 1 shows the number of Baltic listed companies by industries. The highest number of companies in one industry can be found for consumer goods (24), therefore, this industry is used in this study in order to achieve industry-based conclusions. Figure 2 represents the share of companies from each sector of industry.

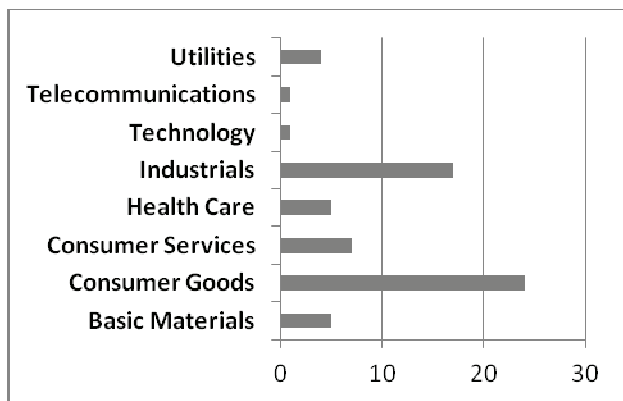


Figure 1. Number of Baltic listed companies by industries, 2005 -2011

Source: authors' construction based on the data from the Baltic Stock Exchange.

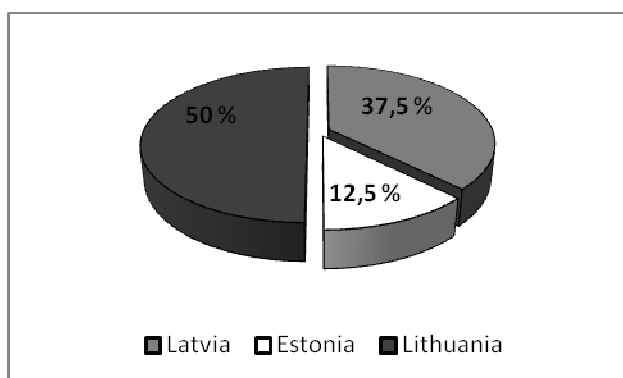


Figure 2. Percentage of Baltic listed companies (consumer goods) by countries, 2005 -2011

Source: authors' construction based on the data from the Baltic Stock Exchange.

The analysis is based on seven years of data (2005-2011) for Estonia, Latvia and Lithuania. The selection criteria required all companies to have all variables available for the whole of the seven year period. Companies that failed to meet this requirement were excluded from the sample.

In addition to the afore mentioned industry of consumer goods, one Latvian company is analysed in more detail. JSC Grindeks is the leading pharmaceutical company in the Baltic States. Main fields of operations are research, development, manufacturing and sales of original products, generics and active pharmaceutical ingredients. Products are exported to 55 countries; export comprises 95% of the total turnover (JSC Grindeks, 2013). In the case of JSC Grindeks, quarterly data is used, therefore the total number of observations is 49 (2000Q4 – 2012Q4).

The analysis is conducted using correlation and regression methods. The Pearson correlation ratio measures the degree and direction of linear relationship between two variables. Correlation coefficient of +1 corresponds to a perfect positive linear relationship, coefficient of -1 corresponds to a perfect negative linear relationship, and 0 indicates no linear relationship between variables. In correlation matrix only significant correlations are indicated (at the 0.05 or 0.01 level).

Regression analysis studies the dependence of one variable on other variables. In addition, the presence of autocorrelation is verified through the Durbin-Watson test, and the Variance Inflation Factor is used to test for multicollinearity. This study uses book values to calculate variables.

The study used the following variables:

- As a proxy for innovation (IA), the ratio of intangible assets was used (calculated by dividing intangible assets by total assets);
- Short-term debt (STD) is calculated by dividing short-term debt by total assets;
- Long-term debt (LTD) is calculated by dividing long-term debt by total assets;
- Total debt (TD) is calculated by dividing total debt by total assets;
- As a proxy for profitability (PROF), return on equity was used (calculated by dividing net profits by stockholders' equity);
- As a proxy for liquidity (LIQ), current ratio is used (calculated by dividing current assets by current liabilities).

To measure the relationship between innovation and capital structure, the Ordinary Least Squares (OLS) estimation is used based on the following regression model:

$$\text{Innovation}_{it} = \beta_0 + \beta_1 \text{CapitalStructure}_{it} + e_{it}, (1)$$

where:

Innovation_{it} – the ratio of intangible assets of company i at time t ;

$\text{CapitalStructure}_{it}$ – the ratio of total debt of company i at time t ;

e_{it} – the error term.

Empirical analysis and discussion of results

Table 2 provides the descriptive statistics of the variables included in the study for 24 Baltic listed companies of consumer goods industry.

Table 2

Descriptive statistics

| Country | Variable | Min | Max | Mean |
|-----------|----------|---------|--------|-------|
| Estonia | IA | 0.01 | 12.75 | 3.99 |
| | PROF | -70.78 | 216.93 | 31.68 |
| | LIQ | 0.88 | 4.14 | 2.07 |
| | STD | 0.03 | 29.45 | 9.34 |
| | LTD | 0.00 | 45.51 | 15.86 |
| | TD | 0.03 | 52.63 | 25.20 |
| Latvia | IA | 0.00 | 3.44 | 0.21 |
| | PROF | -195.70 | 78.81 | 6.71 |
| | LIQ | 1.05 | 68.01 | 9.14 |
| | STD | 0.00 | 44.82 | 5.71 |
| | LTD | 0.00 | 58.67 | 9.84 |
| | TD | 0.00 | 74.33 | 15.55 |
| Lithuania | IA | 0.00 | 23.65 | 3.75 |
| | PROF | -142.96 | 179.20 | 16.33 |
| | LIQ | 0.22 | 17.03 | 1.71 |
| | STD | 0.00 | 57.06 | 16.10 |
| | LTD | 0.00 | 63.21 | 14.63 |
| | TD | 0.00 | 80.24 | 30.73 |

Source: authors' calculations based on the annual reports of the listed companies.

Mean indicator of intangible assets was the highest in Estonia (3.99%), in Lithuania it is slightly lower (3.75%), however, Latvian companies have the lowest ratio of intangible assets (0.21%). In addition, the maximum value of ratio of intangible assets in Latvia is only 3.44%, while in Estonia it is 12.75% and in Lithuania 23.65%. Similar situation can be observed regarding capital structure. The highest ratio of total debt is found in Lithuania (30.73%), whereas, in Estonia, it is slightly lower (25.20%), however, in Latvia, this indicator is 15.55%. Overall, on the aggregate level, companies in Estonia and Lithuania can be characterized by the highest level of innovation and financial leverage, compared to Latvia.

Table 3 presents the Pearson correlation matrix of the variables included in the study of Baltic listed companies.

Table 3

Pearson correlation matrix for Baltic listed companies, 2005-2011

| | IA | STD | LTD | TD | PROF |
|------|-------|--------|-------|--------|------|
| IA | 1 | | | | |
| STD | | 1 | | | |
| LTD | 0.191 | -0.279 | 1 | | |
| TD | 0.220 | 0.645 | 0.816 | 1 | |
| PROF | | | | -0.191 | 1 |

Source: authors' calculations based on the annual reports of the listed companies.

Ratio of intangible assets is positively correlated with long-term debt and total debt, whereas no significant relationship was found with short-term debt and profitability. In addition, there is a slightly negative relationship between total debt and profitability. Conclusion can be made that the innovation level of company increases with the increase in the total debt, whereas, for this industry, the increase in total debt is associated with decrease in profitability.

If one compares both subsamples (2005-2007 and 2008-2011), results are presented in Table 4 and 5), some differences can be found. In the first period (economic boom), there is no significant relationship between the level of innovation and capital structure. Significant relationships exist only among different indicators of capital structure, which is as expected. In the second period (economic recession) the level of innovation increases with the increase in long-term debt and total debt. The correlation coefficients of this period (economic recession) are higher if compared to period of 2005-2011 (the whole sample). In addition, if it is taken into consideration that for the period of 2005-2007 no significant relationship with the level of innovation is found, then one can conclude that the financing problem of innovation is pronounced in the economic downturn, and during the economic boom the companies finance their innovations by using other financing sources (retained earnings, etc.). During the economic recession when internal resources are not sufficient to cover innovative projects debt financing is required.

Table 4

Pearson correlation matrix for Baltic listed companies, 2005-2007

| | IA | STD | LTD | TD | PROF |
|------|----|-------|-------|----|------|
| IA | 1 | | | | |
| STD | | 1 | | | |
| LTD | | 0.277 | 1 | | |
| TD | | 0.654 | 0.908 | 1 | |
| PROF | | | | | 1 |

Source: authors' calculations based on the annual reports of the listed companies.

Table 5

Pearson correlation matrix for Baltic listed companies, 2008-2011

| | IA | STD | LTD | TD | PROF |
|------|-------|-------|-------|--------|------|
| IA | 1 | | | | |
| STD | | 1 | | | |
| LTD | 0.353 | | 1 | | |
| TD | 0.359 | 0.669 | 0.749 | 1 | |
| PROF | | | | -0.267 | 1 |

Source: authors' calculations based on the annual reports of the listed companies.

Figure 3 shows the ratio of intangible assets and short-term debt ratio for JSC Grindeks from the period of 2005 to 2011. Here and further in the paper two trend lines are indicated: linear trend line and the second one, which provides the highest r-squared. In the case of intangible assets and short-term debt, the linear model explains 28% of changes in intangible assets, while the polynomial model explains 38%.

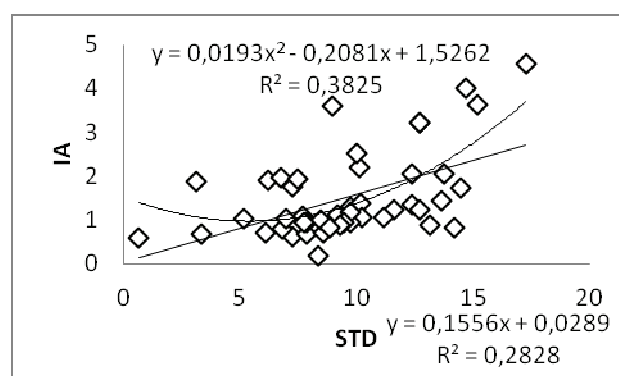


Figure 3. Ratio of intangible assets and short-term debt (%) of JSC Grindeks, 2005-2011

Source: authors' construction based on the annual reports of the listed companies.

The relationship between the ratio of intangible assets and long-term debt is best described by the polynomial model as well (Figure 4). The liner model explains only 14%, whereas the polynomial model explains almost 40% of changes in the intangible assets.

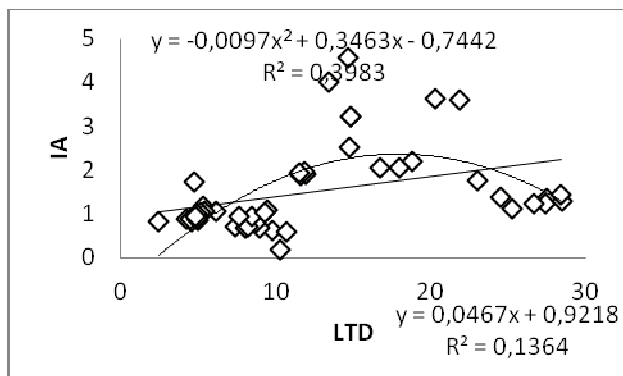


Figure 4. Ratio of intangible assets and long-term debt (%) of JSC Grindeks, 2005-2011

Source: authors' construction based on the annual reports of the listed companies.

The highest determination coefficient is found between the ratio of intangible assets and total debt (Figure 5). The liner model explains 24% and the polynomial model explains almost 46% of changes in intangible assets.

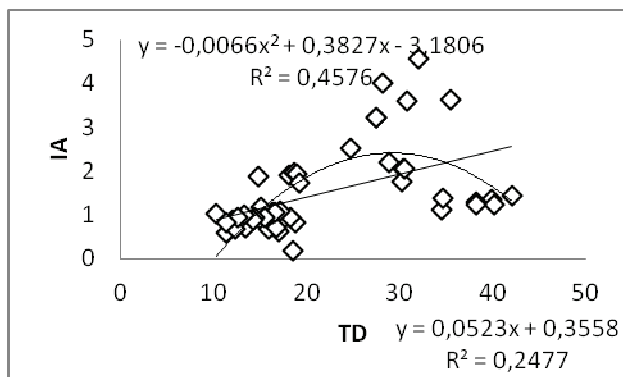


Figure 5. Ratio of intangible assets and total debt (%) of JSC Grindeks, 2005-2011

Source: authors' construction based on the annual reports of the listed companies.

Overall, the relationships between capital structure and innovation are best described by the polynomial models, however, the linear models of short-term debt, long-term debt and total debt indicate a positive relationship.

Figure 6 represents the ratio of intangible assets and profitability (ROE – return on equity). In this case the polynomial model shows only marginally better results than the linear model. In case of JSC Grindeks the level of innovation and profitability are the best described by the downturn trend line.

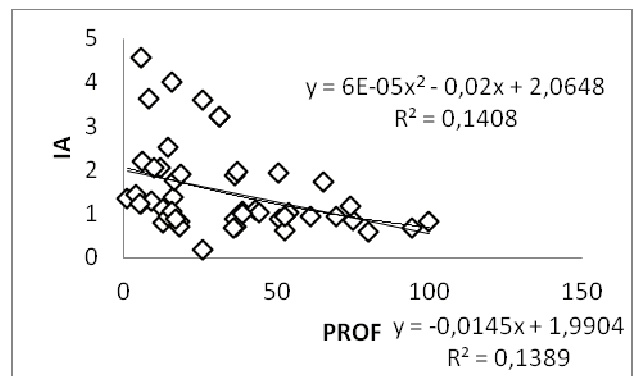


Figure 6. Ratio of intangible assets and return on equity (%) of JSC Grindeks, 2005-2011

Source: authors' construction based on the annual reports of the listed companies.

Similar results are achieved on intangible assets and liquidity (Figure 7). The linear model explains almost 24% of changes in the intangible assets, whereas the polynomial model explains 38%. Linear model shows the negative relationship between both variables; however the polynomial model indicates that the level of innovation is the highest at the very low or very high level of liquidity.

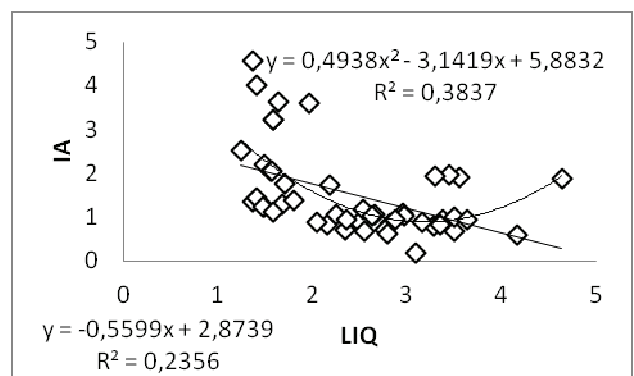


Figure 7. Ratio of intangible assets and current ratio (%) of JSC Grindeks, 2005-2011

Source: authors' construction based on the annual reports of the listed companies.

The relationships between innovation level and capital structure are best described by the polynomial models. The same can be stated for innovation and liquidity, whereas in the case of profitability. the linear model fits as good as the polynomial model.

Since the trend lines of long-term debt and total debt in relation to intangible assets are arched downward, it indicates that the level of innovation increases up to a certain point of capital structure and then once again starts to decrease. It means that a capital structure exists at which the level of innovation is maximized. At low level of debt, the level of innovation is low as well, because company does not invest in innovation activities, therefore additional resources are not required. Then as the debt level increases, the level of innovation increases as well up to a certain point. After this point the ratio of debt continues to increase, whereas the ratio of intangible assets starts to decrease. One must take into

consideration, that intangible assets are not a good collateral, since they are the least liquid assets, therefore, at high level of debt the level of innovation is low, since company does not pursue innovation projects, which might be risky at this point (high leverage). In the case of JSC Grindeks the level of innovation is maximized, if the ratio of total debt is approximately 30%.

Negative trend line and relationship between innovation and profitability can be explained as follows: it might take several years for the investment in innovation to pay off; therefore this inverse relation exists between two variables.

The non-linear relationship between innovation and liquidity indicates that the company tends to invest in innovation projects at a very low and at a very high level of liquidity. It is logical to invest at the very high liquidity, since company has extra resources it can use for investments.

Table 6 provides the Pearson correlation matrix of the variables included in the study for JSC Grindeks:

- The level of innovation increases with financial leverage;
- The level of innovation is also associated with a lower profitability and liquidity;
- JSC Grindeks can also be characterized by the negative relationship between capital structure and profitability. It means that company with higher financial leverage is less profitable.

Table 6
Pearson correlation matrix for JSC Grindeks, 2005-2011

| | IA | STD | LTD | TD | PROF | LIQ |
|------|--------|--------|--------|--------|-------|-----|
| IA | 1 | | | | | |
| STD | 0.569 | 1 | | | | |
| LTD | 0.457 | 0.357 | 1 | | | |
| TD | 0.573 | 0.640 | 0.946 | 1 | | |
| PROF | -0.421 | -0.542 | -0.658 | -0.728 | 1 | |
| LIQ | -0.491 | -0.779 | -0.625 | -0.783 | 0.633 | 1 |

All correlations are significant at the 0.05 level (2-tailed).

Source: authors' calculations based on the annual reports of the listed companies.

As a final step, in order to analyse the relationship between innovation and capital structure, regression analysis was conducted using Eviews. Since in this case, time series data is used, it was necessary to transform the data in order to obtain stationary time series. A stationary series is a variable with constant mean and variance across time. Therefore, the data was differenced 1 time to make it stationary. Unit root testing was done using augmented Dickey-Fuller (ADF) test. The results are presented in Table 7.

The regression model is as follows:

$$dIA = 0.008 + 0.12dTD + e_t \quad (2)$$

Table 7

Regression results for relationship between innovation and capital structure in JSC Grindeks (Eviews)

| Dependent Variable: DIA Method: Least Squares Sample: 2001:1 2012:4 Included observations: 48 DIA = C(1) + C(2)*DTD | | | | |
|---|-------------|------------|-------------|--------|
| | Coefficient | Std. Error | t-Statistic | Prob. |
| C(1) | 0.008311 | 0.118088 | 0.070377 | 0.9442 |
| C(2) | 0.123263 | 0.031899 | 3.864176 | 0.0003 |
| R-squared | 0.245058 | | | |
| Adjusted R-squared | 0.228647 | | | |
| Durbin-Watson statistic | 2.062114 | | | |

Source: authors' calculations based on the annual reports of the listed companies.

The results from the regression model denote that the independent variable (total debt) explains the variance in the innovation at a degree of 23%. The F-statistics prove the validity of the estimated model. Durbin-Watson d statistic shows no autocorrelation problem. The coefficient of total debt is statistically significant ($p < 0.05$). Once again, a positive relationship between capital structure and innovation is found.

Conclusions and recommendations

The research covered 24 Baltic listed companies of consumer goods industry for the period of 2005-2011 and 1 Latvian company JSC Grindeks. The authors analysed the relationship between innovation and capital structure. The study finds that most studies confirm a negative relationship between innovation and capital structure, however, in some cases a non-linear relationship is found as well. In both theoretical and empirical literature, a wide range of innovation indicators exists, however, their use is limited in the case of Baltic countries. On the other hand, the use of intangible assets as a proxy for innovation activities has been researched recently.

On the aggregate level, companies in Estonia and Lithuania can be characterized by higher level of innovation and financial leverage compared to Latvia.

In the case of 24 Baltic listed companies of consumer goods industry, it was observed that the innovation level of the company increases with the increase in the total debt, whereas the increase in total debt is associated with decrease in profitability. During the economic boom the companies finance their innovations through the use of other financing sources (retained earnings, etc.) than debt. During the economic recession, when internal resources are not sufficient to cover innovative projects, debt financing is required.

In the case of Latvian company JSC Grindeks, several interesting relationships were found. The highest determination coefficient was detected between the ratio of intangible assets and total debt; the polynomial model explains almost 46% of changes in intangible assets. Overall, a non-linear relationship between innovation and capital structure was found. A non-linear relationship (in this case – polynomial trend line which is arched down) indicates that the level of innovation increases up to a certain point of capital structure and then starts to

decrease. At low level of debt, the level of innovation is low as well, because the company does not invest in innovative projects and additional financing is not required. Then, as the debt level increases, the level of innovation increases as well up to a certain point. Then, as the debt increases, the level of innovation starts to decrease. It might indicate that company does not pursue innovative projects, which might be risky at this point (high leverage). For JSC Grindeks, the level of innovation is maximized, if the ratio of total debt is approximately 30%.

For JSC Grindeks, a negative relationship is found between innovation and profitability, which may be

explained by the fact that innovative projects might take several years for the investments to pay off.

It is recommended for Baltic listed companies of consumer goods industry to finance their investments in innovative projects using external debt (if internal resources are not sufficient), since the cost of debt is usually cheaper than the cost of equity. For JSC Grindeks it is recommended to keep a medium level of debt, since it maximizes the level of innovation.

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Irina Berzkalne, Elvira Zelgalve

CAPITAL STRUCTURE AND INNOVATION: A STUDY OF BALTIC LISTED COMPANIES

Summary

Innovation is the basis for competitiveness. Innovation is crucial for countries and companies for their survival and growth. With the help of innovation, it is possible to create value, to streamline the organization, to create intellectual property, to achieve a heightened competitive advantage, etc. The importance of innovation and innovative companies is especially significant in the light of recent economic turmoil. Innovative companies create new jobs, offer more valuable products to the customer, increase exports, etc. However, innovation usually requires a large amount of capital, and companies might not have the necessary means to finance the innovation activities. In addition, innovation projects are usually long-term, rather than short-term, it means that returns are usually received years after initial investment. Therefore, it is important to understand and analyse whether there is any relationship between innovation and company capital structure. The aim of the study is to evaluate the relationship between innovation and capital structure.

The analysis is conducted on a sample of 24 listed companies of consumer goods industry (Baltic Stock Exchange) and 1 Latvian company JSC Grindeks over the period from 2005 to 2011. In the research paper, the following qualitative and quantitative methods of research are applied: the monographic method, graphical method, descriptive statistics, correlation analysis and regression analysis.

Innovation studies started to emerge as a separate field of research in the 1960s. Since then, a sizeable amount of innovation literature has been developed. Some studies explore the characteristics of innovative companies, whereas other studies analyse the changes in innovation within the business cycle. Many papers are published on innovation and capital structure. Most studies confirm a negative relationship between innovation and capital structure, however some studies also find a non-linear relationship.

The vast majority of research on innovation is performed using R&D expenses as a basis for innovation indicator. However, the use of R&D is limited in the Baltic countries for several factors, for example, the companies rarely have R&D departments, the innovation process is generally an unsystematic search-and-learning process and reporting of R&D expenditure is not mandatory. Considering the afore mentioned and available data, the authors of this study use intangible assets as a proxy for innovation (in particular, the ratio of intangible assets to the total assets of the company). This decision is based by the fact that although research and development (R&D) costs are not in themselves intangible assets, however, R&D activities frequently result in the development of something that is patented or copyrighted, which in turn is included in the balance sheet as an intangible asset.

Ratio of intangible assets is positively correlated with long-term debt and total debt, while there is no significant relationship with short-term debt and profitability. In addition, there is a slightly negative relationship between total debt and profitability. Conclusion can be made that the innovation level of the company increases with the increase in total debt, whereas the increase in total debt is associated with a decrease in profitability for this industry. If one compares both subsamples (2005-2007 and 2008-2011), some differences are found. The financing problem of innovation is pronounced in the economic downturn, and during the economic boom the companies finance their innovations by using other financing sources (retained earnings, etc.). During the economic recession, when internal resources are not sufficient to cover innovative projects, debt financing is required.

In the case of Latvian company JSC Grindeks, several interesting relationships were found. The highest determination coefficient is found between the ratio of intangible assets and total debt; the polynomial model explains almost 46% of changes in intangible assets. Overall, there is a non-linear relationship between innovation and capital structure. A non-linear relationship (in this case – polynomial trendline which is arched down) indicates that the level of innovation increases up to a certain point of capital structure and then starts to decrease. At low level of debt the level of innovation is low as well, because companies do not invest in innovative projects and additional financing is not required. Then, as the debt level increases, the level of innovation increases as well up to a certain point. Then, as the debt increases, the level of innovation starts to decrease. It might indicate that company does not pursue innovative projects, which might be risky at this point (high leverage). For JSC Grindeks, the level of innovation is maximized if the ratio of total debt is approximately 30%.

For JSC Grindeks, a negative relationship is found between innovation and profitability, which may be explained by the fact that innovative projects might take several years for the investments to pay off.

It is recommended for Baltic listed companies of consumer goods industry to finance their investments in innovative projects by using external debt (if internal resources are not sufficient), since the cost of debt is usually cheaper than the cost of equity. For JSC Grindeks, it is recommended to keep a medium level of debt, since it maximizes the level of innovation.

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IMPACTS OF ALL INCLUSIVE TOURS TO HOST COMMUNITIES: TURKISH REVIERA CASE

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Abstract

Tourism industry is one of the largest industries in world. It is particularly important for underdeveloped and developing countries. It creates employment opportunities, foreign currency, development opportunities etc. All-inclusive package tours (AIPT) are the fastest growing segment of mass tourism, and have positive and negative impacts for tourists, tours operators, accomodation establishments, local businesses and host communities. In this paper, firstly; all-Inclusive package tour concept is explained. The increasing demand and reasons for choosing AIPT is given by examples. Secondly; the negative Impacts of the all-inclusive system for customers (tourists), accomodation establishments, local businesses are emphasized by examples from some host countries. And lastly; as a case study, impacts of all-inclusive system to Turkish tourism and local businesses in Turkish Riviera is examined through review of the literature.

Keywords: All-inclusive package tours, Impacts of tourism, Local business, Host community, Tourism marketing.

JEL Classification: M21, M31.

Introduction

Travel and Tourism continues to be one of the world's largest industries. The total impact of the industry means that, in 2011, it contributed 9% of global GDP, or a value of over US\$ 6 trillion, and accounted for 255 million jobs (WTTC, 2012). In 2012, a record one billion tourists crossed international borders in a single year. Another five to six billion are estimated to travel in their own countries every year (UNWTO, 2012). Over the next ten years this industry is expected to grow by an average of 4% annually, taking it to 10% of global GDP, or some US\$10 trillion (WTTC, 2012).

As world tourism demand rapidly increases, the supply side of the market has begun to gain importance, notably in product diversification, competition, and pricing. As the world becomes ever more globalized, tourism enterprises have tended towards diversification of their products in order to increase occupancy rates, attempt to raise profits and ultimately survive in this competitive environment. Accordingly they have developed and implemented various marketing techniques, and one of these is the package tour and particularly "all-inclusive system" (Özdemir and at all., 2011:504).

All-Inclusive Package Tour Concept

The legal definition of a "package" is the pre-arranged combination of at least two of the following components when sold or offered for sale at an inclusive price and when the service covers a period of more than twenty-four hours or includes overnight accommodation: transport; accommodation; other tourist services not ancillary to transport or accommodation and accounting

for a significant proportion of the package (BERR-Department of Business Enterprise and Regulatory Reform, 2008)

The term "all-inclusive" began in 1950 with Club Med, which claims to have invented the vacation package. The first Club Med village was on the Spanish island of Mallorca, where the all-inclusive vacation on a remote island was quite an adventure says travel editor Greenberg (2008). All-inclusive (AI) is defined as a holiday package which includes travel, accommodation, all meals and beverages. The AI model has several variants, ranging from the very basic to the most comprehensive. A basic AI package purchased by a traveller would include flights, coach transfers and accommodation, including most meals and drinks. At the other end of the spectrum, a top-of-the-range comprehensive product might also include luxury private transfers, accommodation at a five-star resort, spa treatments, sporting activities, sightseeing tours and excursions and more (Abdool and Carey, 2004:1).

The Increasing Demand of All-Inclusive Package Tours

All-Inclusive package tours are the fastest growing segment of mass tourism and meanwhile are the most popular mode of international travel (Anderson 2012; Wong and Kwong, 2004; Oredsson, 2012).

- According to Mintel research, the number of all-inclusive holidays sold in the five years to 2009 increased by one-third (Calder, 2012).
- Nearly half - 48 per cent - of UK tourists booked an overseas package deal in 2012, compared to 42 per cent in 2011 and 37 per cent in 2010, according to

figures released by ABTA, The Travel Association (Lander, 2012).

- Demand for all-inclusive holidays has risen by 30% over the past five years. The growth of demand for cruise holidays also reflects this interest in inclusive holidays (thomson.co.uk 2008).
- Travel firm First Choice will make all its holidays "all inclusive" from next year. Already, 65% of its holidays are of this type. It says from next summer it will become the UK's first mainstream holiday company specialising in the field (BBC, 2011). The firm tells prospective customers: "Generally, you will be given full board, snacks from morning until late evening, plus local booze and soft drinks." Holidaymakers have little incentive to dine outside the resort (Calder, 2012).
- Thomas Cook is reportedly increasing the number of all inclusive holidays it offers by 10 per cent (tourismconcern.org.uk, 2012).
- The Foreign and Commonwealth Office of UK (2012:14) published its new "definitive guide for young travellers". The publication - entitled *Plan. Pack. Explore* - suggests that young people should "consider all-inclusive holidays – set your price in sterling and get meals, drinks and activities in one price. Check whether they actually save your money and what packages specially include such as added value extras."
- 87% of tourists go on all-inclusive holidays to Kenya (tourismconcern.org.uk, 2012)
- At least 85% of tourists visiting the Balearics, and Majorca in particular, use package tourism. All-inclusive demand and supply are growing extensively (Anderson 2012:318).
- The Dominican Republic is the most popular tourist destination in the Caribbean with one of the largest all-inclusive resort industry in the world (responsibletourism.com, 2013).
- Research shows that the demand for AI holidays is growing globally and the larger European and British tour operators are certainly keen to develop this market, particularly in the Caribbean (Abdool and Carey, 2004:1).
- 85 % of foreign tourists visiting Antalya - Turkey preferred package tours, and 82 % of them used the All-inclusive (Aksu et al, 2008).

Reasons for Choosing All-inclusive Package Tours

All-inclusive trips and cruises are a growing trend within the tourism industry. Their common denominator is the tourist's lack of interest for the host country and the tour operator's control over the tourist's travel budget, according to Richard Ek from the Department of Service Management, who has researched these forms of travel (Oredsson, 2012).

Main Reasons of Why Tourists Prefer All-inclusive System (AIS)

Victoria Bacon, Head of Communications for ABTA, says consumers valued the 'Security and cost effectiveness that package holidays provide. At the same time the market has also evolved to offer greater choice to holidaymakers. The market is now very sophisticated, with packages to cater for every taste and budget – whether you want two weeks all-inclusive in the sun, a cruise around Asia or an adventure holiday in South America' (Lander, 2012). According to Thomson Travel Agency, (2013) more all-inclusive holidays as budget conscious families look for greater value-for-money and certainty about their spending regardless of exchange rate fluctuations. Many families like the all-inclusive holiday concept because they help to control holiday spending, while travel firms make more money from them than from self-catering properties (Calder, 2012).

In their study Yayli and Yayla (2012:156) found that "Guaranty of tour" is the most important statement while tourists purchase all inclusive package tours. "Price of travel" is the second most important criteria and "Items included in the tour price" is the third most important selection criteria for all inclusive system. The basic premise of the all inclusive is that you pay the tour operator in advance for everything you need – including all the sports, activities, kids clubs and food and drink. In brochures tourists are encouraged to enjoy all the facilities without carrying any money with them (Wheatcroft and Francis, 2012).

In their study Çiftçi, Duzakın and Onal (2007:271-272), and Travel Researcher [Jonathan Mitcham](#), (2011) list the positive aspects of the all inclusive system for tourists as below:

- It eliminates the unexpected expenditures faced by tourists during their vacation.
- It enables tourists to spend their vacation in a foreign country without being deceived and under security.
- Extras are highly expensive and prices out of the establishments offered to the tourists are very high. As you've pre-paid for virtually everything, there's no need to take out much local cash. Perhaps you want to avoid known safety risks in the outside local area or are turned off by the idea of the local food.
- It is seen as good value for money and an easier way to fix a set travel budget?
- The hotel complex probably has such wide-ranging facilities and activities – especially for families – that you can stay there day in, day out without getting bored.

Main Reasons of Why Accommodation Establishments Prefer All-inclusive System

Accommodation establishments implement all-inclusive system sometimes voluntarily, sometimes by force of international tour operators. Corbaci (2004: 52) cited in (Ozyurt, Oku and Aktas, 2012:80-81, and Çiftçi, Düzakın and Önal, (2007: 271-272) summarize the reasons of why accommodation establishments prefer all-inclusive system as follows:

- Provides easier marketing,
- Increases sales in order to reach maximum profitability.
- Yields competitive advantage against competitors in tourism market.
- Presents customers different holiday options,
- Tourism seasons can be extended between 15 to 30 days.
- Lower running costs and better planning of the services due to knowing the number of buyers and the services that will be provided in advance.
- Customers' staying at the hotel all day long causes activity and accordingly sales for the other goods.
- Controlling of personnel, product and services costs.
- Increases the occupancy rates. Better occupancy rates create better image for the company.
- Easier to sell for travel agencies and tour operators.
- It is possible buying their food, drinks and other needs in total and huge amounts to reduce costs.
- Prepayments of all inclusive packages result in better financial planning for spending and investments.

Main Reasons of Why Tour Operators Prefer All-inclusive System

Tour operators based in the major originating markets affect the nature of tourism development. It is essential to understand the role of tour operators and the changing structure of the tourism industry. A tour operator is thus a crucial link in the distribution chain, representing the central connection between customers and providers of tourism services, and thus has the power to influence both the demand and the supply side (PPT, 2004). Nowadays, the market structure is predominately marked by a handful dominant tour operating groups that are active in all European key source markets and most of them can be regarded as vertically and horizontally integrated (Müller, 2005; PPT, 2004).

Big firms have grown larger, 'swallowing up' many of the smaller agencies. Travel agency business becoming dominated by the multiples (Biz/ed, 2006). As competition in the travel and tourism sector has intensified, tour operators have taken over or merged with other travel and tourism businesses as a way of maintaining or increasing their market share and maximising their profits. This is most noticeable in the tour operator/travel agent relationship, where: TUI Travel UK owns Thomson and First Choice tour operating businesses, and the Thomson travel agency chains (TUI UK is itself controlled by the German company TUI AG). Some of the largest tour operators also own their own airlines, charter airlines, accommodation, ground-handlers and travel agents giving even greater control over the component parts of package holidays (BTEC, 2010:39; PPT, 2004). In recent years tour operators' concentration approach has been expanded to destination areas as well. Large tour operators merge with, acquire or develop accommodation establishments and incoming tour and coach operators. For these large consortiums the only feasible way to sustain their business and earn

profits is to standardise their "packages", follow a "high volume-low cost-low profit margin" strategy in their product offering. Hence, they compete with each other primarily on the ground of market share (Bastakis, Buhalis, and Butler, 2004:5).

Travel agents normally receive 10% commission on all tours they confirm. Clearly the financial incentive means travel agencies find it extremely advantageous to sell tour packages and not solely flights and/ or accommodation (wiki.answers, 2013). "These trips are a very good deal for the tour operators", says Richard Ek. The tourists stay either within the holiday village or on the cruise ship, ensuring that a large part of their travel budget goes straight into the pocket of the tour operator (Oredsson, 2012). For example; Tourism Concern calculates that out of every pound that you spend on a holiday to Kenya, 20p goes to the travel agent, 40p goes to the airline, 23p goes to the hotel chain, 8p goes to the safari company, 9p goes to the Kenyan government and the Maasai, on whose lands we have our safari, gets nothing! And then out of the 9p that goes to the Kenyan government 15 percent goes out again in debt and the rest goes in imports to bring in the goods we need for a great holiday (responsible travel, 2013)!

There is a growing trend for people to book direct with tour operators rather than booking through a travel agent. This trend is set to continue and gather pace as the popularity of the internet, mobile technology and interactive TV grows (BTEC, 2010:38).

The Negative Impacts of the All-inclusive System

Besides advantages, all-inclusive system has negative impacts on customers (tourists) and accommodation establishments as listed below: (Aktas et al., 2002; Lo and Lam, 2004:163; Koc, 2006:866; Çiftçi, Düzakın and Önal, 2007: 271-272; Müsellim, 2011: 170; Özdemir et al., 2011:505; Oredsson, 2012; Calder, 2012; Wheatcroft and Francis 2012; hurriyet.com.tr, 201; tourismconcern.org.uk, 2012)

The Negative Impacts of the All-inclusive System for Tourists

- The customers may not have exact information on what is included and what is excluded in the fixed price package in the application of the all inclusive system.
- The prices charged for all-inclusive package tours may not necessarily include all possible charges.
- The tourists, who spend most of their time within the boundaries of the hotel, are likely to assume that any failure occurring within the hotel could be met all around the city as well.
- The hotels applying this system are likely to reduce their service quality level to increase profitability.
- The tourists generally tend to spend all their time within the hotel. Thus there is no any or very little interaction with local culture or people.

- Another obvious disadvantage is the lack of cultural contact and the fact that the tourist does not get to know the country he or she is visiting.
- In most of the accommodation establishments, the staff may treat the guests badly and may accuse them accommodation establishments of being responsible for their low salary and heavy working conditions.
- As profit margins are low in AI system accommodation establishments try to reduce costs. Costs can be reduced through a reduction in the quality and quantity. This can be done by delaying replacement expenditures in terms of fixed assets in the accommodation establishments, using inferior quality foodstuff, beverages, etc, and employing fewer and unskilled staff.
- Guests are often required to wear a wristband signifying their entitlement to food and drink, and many resorts have substantial physical barriers.
- Tourists queue for their meals in the hotels, where the meal quality would be in line with the overall daily accommodation cost, i.e. a fresh-pressed orange juice is still payable!
- All-inclusives cut off a number of the pleasurable things to be experienced on holiday.

The Negative Impacts of the All-inclusive System for Accommodation Establishments

- The system may give rise to unfair competition. As a result, the preference for the establishments that care for quality could be reduced.
- Hotels that do not utilize the all-inclusive system are having a hard time as mass-market operators cut into their income.
- As accommodation establishments work on small profit margins and the price is fixed in the all-inclusive pricing system, the only way to increase profits is to reduce their costs. Costs can be reduced through a reduction in the quality and quantity of inputs. This can be done by delaying replacement expenditures in terms of fixed assets in the accommodation establishments, using inferior quality foodstuff, beverages, etc, and employing fewer staff, and staff who may not be sufficiently skilled, as skilled staff would demand higher wages.
- The all-inclusive system keeps the tourists within the hotel all the time, resulting in a waste economy for the accommodation enterprises that pushes tourists towards high consumption.
- Tourists consider the hotel personnel sometimes as their own butler and tend to react without any tolerance if any such hotel personnel does not move immediately.
- Shops selling souvenirs and handicrafts are seldom visited, tourists spend very few inside the hotel too.
- All-inclusive customers are usually low or middle income group, and do not spend much for extra services.

- Accommodation establishments which apply all-inclusive system sacrifice from extra revenues, such as minibars, alcoholic beverages, a la carte restaurants, saunas, room service etc.

The Negative Impacts of All-Inclusive System for Local Businesses

Many host countries, particularly underdeveloped and developing ones, as a tourism-specialized economy, majority of businesses depend on tourism: Restaurants, cafeterias, bars, hand crafts, taxi, buses, banks, etc. In an ideal situation, complementary services generate wealth in destinations and provide many opportunities (Anderson, 2012;321). However; tourism is marketed internationally but it is consumed at the point of production. International agencies and governments have been active in planning and promotion but the private sector has been the real engine of tourism development. Companies based in the tourist-originating countries dominate international tourism (Goodwin, 1998).

Nevertheless, AI mode has lots of economic implications, the main being the distribution of the tourist's euro between the main three stakeholders: country of origin, country of destination and the tourist. In most cases, the countries of origin and AI tourists gain more from AI deal than the destination economies (Anderson, 2012;319). As Hemmati and Koehler (2012) state, package tours which are offered and sold by one wholesaler tend to imply little revenue remaining in destination countries. Package holidays are increasingly all-inclusive deals, making it unnecessary for tourists to spend money outside the resort, by far the greater part of the money stays in the country where the ticket was bought. This means that the tour company (which is mostly owned by overseas companies) rakes in most of the tourist's cash, leaving little behind in the local community in whose countries and local areas where we take our holidays (Wheatcroft and Francis, 2012). Organisations such as Tourism Concern have highlighted the negative effects of all-inclusives, such as profits flowing to international hotel chains and international tour operators, rather than the local population – who are often in poorer countries (Mitcham, 2011).

Besides high leakage rates, if AI resorts enclave tourists and offer them with almost everything they need, then it is a challenge for the survival of complementary businesses; and threat to the employment opportunities, tax revenues and incomes they generate to the economy (Anderson, 2012;321). That is to say, the rapid growth of the all-inclusive, which constitutes a significant proportion of the rooms, is probably preventing other aspects of the tourism industry from growing (Boxill, 2004:270). Tourists who have paid for everything in advance - and are accommodated in self sufficient resorts complete with bars, restaurants and entertainment – have little incentive to go anywhere else in the country, hire local guides, eat in local restaurants, pay entry fees to see local natural or cultural heritage, visiting attractions, meeting local people, taking tours and experiencing the

local culture. Often all-inclusive hotels will package the 'testing of local elements' in their products within the limits, or within the walls of these hotels (Jayawardena 2002:9; Wheatcroft and Francis 2012).

The Negative Impacts of All-Inclusive System: Examples from Host Countries

As UNEPTIE (2012) emphasizes local businesses often see their chances to earn income from tourists severely reduced by the creation of "all-inclusive" vacation packages. When tourists remain for their entire stay at the same cruise ship or resort, which provides everything they need and where they will make all their expenditures, not much opportunity is left for local people to profit from tourism. Some examples can be given from different host countries as follows;

Majorca – the boom in the marketing of AI in Majorca is a big challenge that endangers the future of complementary services (Anderson, 2012:321). All-inclusive holidays blamed for loss of local businesses. In September 2011 local businesses organised a day of protest against the all-inclusive hotels.

Turkey – A study in Turkey, funded by the tourism industry and conducted at a First Choice resort, found that just 10% of spend by all-inclusive tourists found its way into the regional economy (Datar, 2012) and, with even less reaching the immediate local area.

Mombasa, Kenya – World Bank states all-inclusive beach holidays contributed the least economic benefit

Kenya – 87% of tourists go on all-inclusive holidays and yet over half of local people live on less than 1\$ a day

Jamaica – all-inclusive hotels attracted tourists in the short term but blocked development of other types of tourism, leading to increased tourist harassment. The Organisation of American States carried out a study of the economic impact of the performance of the tourism industry in 1992 and 1997 in Jamaica. The study of 1992 concluded: the all-inclusives generate the largest amount of revenue, but their impact on the economy is smaller per dollar of revenue than other accommodation sub-sectors; the non all-inclusive accommodation import less and employ more people per dollar revenue than the all-inclusives; the all-inclusives generate negative foreign exchange earnings due to high levels of imports (Issa and Jayawardena, 2003:169).

Dominican Republic – is the most popular tourist destination in the Caribbean with the largest all-inclusive resort industry in the world. According to Tourism Concern, of the money that we pay for our average all-inclusive holiday, 89 percent stays in the UK with the operator, the air carrier, insurance cover, commissions and the travel agency. Of the remaining 11 percent, the hotel gets just 3%. You can imagine how much is left in for the staff in the hotels. (responsible travel, 2013). All-inclusive holidays blamed for restaurant closures and increased negative attitude towards tourists.

The Caribbean - In recent years, the all-inclusive vacation package has exploded throughout the Caribbean (Greenberg, 2008). All-inclusives create 'enclave tourism', which has stifled the development of alternative tourism models. Workers' rights are often poor, and they

don't get tips (Watson, 2012). All-inclusives are unpopular with local people for another reason. As similar in many host countries some beaches are exclusively reserved for tourists. Stretches of beach are fenced off and protected by security guards, with local people being denied access. Tourists are warned about the security threat posed by local people – which may or may not be true – and advised to stay in resorts. Either way local people's attitudes to tourists are certainly not going to be improved by a bunker mentality by the tourism industry (Wheatcroft and Francis, 2012).

Goa, India – 'enclave tourism', local taxis and guides losing business to all-inclusive resorts (Tourism Concern, 2012)

Gambia - Cruises and all-inclusives are rapidly growing segments, but likely to generate few economic linkages. The Gambian Government has recently decided to ban 'all-inclusives' in response to local demands, but a storm of protest from European tour operators (and threats of reduced business) resulted in the policy being abandoned (Ashley, Boyd and Goodwin, 2000:3; Wheatcroft and Francis, 2012)

Canaries - Tourism Concern interviewed hotel workers in the Canaries who lived in cramped conditions, barely earned a living wage, and were illegally kept on temporary contracts. There is no doubt that in many cases local people get the most menial jobs, while expatriates take the best paid management positions (Wheatcroft and Francis, 2012).

General – Tourism Concern (2012) surveys show that Local businesses, such as restaurants, shops, taxi drivers and small guest houses, all lose out to the all-inclusive model, as guests are deterred from leaving the hotel grounds. In some destinations, countless businesses have been forced to close, which in turn deters tourists holidaying on bed and breakfast packages, as the destination has less to offer. Local entrepreneurs from Spain, Crete and Cyprus, from The Gambia to Kenya, and from St. Lucia to Jamaica have all complained of being unable to run their businesses any longer because the footfall of tourists coming out of the all-inclusives is so low.

Besides negative economic impacts, all-inclusive system has negative cultural, social, environmental impacts on local communities.

- All-inclusives can alienate tourists from the destination they are visiting and the people who live there. This can hamper positive cultural exchange.
- For young people, part of travel is the cultural exchange – which an all-inclusive holiday inhibits.
- Holidaymakers also use vast quantities of energy and water (significantly more per person than local people), create significant amounts of waste, and some feel that this is a high price to pay for little commercial return (Wheatcroft and Francis, 2012).
- It is claimed that AI's contribute to alienation of the host population as it effectively restricts the free movement of tourists outside the confines of their hotel and into the local communities. In certain cases, locals may even be restricted from entering the hotel compound (Abdool and Carey, 2004:1).

Tourism Concern's Director, Mark Watson (2012) says the following on the issue: "The all-inclusive model brings the least benefit to local communities. Host communities tend to resent such tourists because they don't contribute to the local economy. From that perspective, several implications have been drawn. If at the destination an AI tourist spends lesser than the overall average tourist and the AI supply is growing extensively, it is undoubtedly that the AI mode poses a threat on the traditional tourism; which will pull down the tourism expenditure. This is a challenge for the growth of the economy, and even worse for tourism-specialized economies (Anderson 2012:321). Therefore, in his study Boxill (2004:270) argues that the rapid development of the all-inclusive sector, while good for the short-run, has had significant long-run negative effects on the expansion of the industry.

Impacts of All-Inclusive Package Tours to Turkish Tourism and Local Business

According to UNWTO (2010) statistics foreign tourist arrivals to Turkey is 25,5 million, with a seventh position in the world in 2009, and ninth place with 21,3 billion USD in receipts. UNWTO (2012) datum show that in 2011, Turkey moved up one position to sixth place in arrivals with 29 million tourists, nevertheless is twelfth with 23,20 billion USD in receipts. In his survey, realized among travel agencies in Antalya, Boz (2004) found that, inbound tourism revenues decline per tourist while foreign tourist arrivals increase. It looks like a paradox. What are the reasons of this situation?

May rapidly increasing rates of all inclusive system be a reason!

Özdemir et al. (2011:504) emphasize in their study that, "an important point to note regarding the all-inclusive system is that the customer profile is mainly at the low and middle-income level. Following researches support this argument.

In his survey, Boz (2004) found that 33 % of foreign tourists visiting Antalya were from the low-income group and, 45 % were from the middle income group.

According to the study of Aksu et al. (2008), out of all tourists visiting Antalya, 34.8 % has an annual income less than 6.000 euros, 20,1 % has an annual income between 6.000 and 12.000 euros and 11,4 % has between 12.000 and 18.000 euros income annually.

In the past, Turkey has focused on 3S (sun, sea and sand) mass tourism, targeting lower income level tourists. As capacity has increased steadily in coastal areas, the bargaining power of tour operators has grown, bringing an increasing pressure for lower prices (Alvarez, 2010:124). Tosun and Çalışkan, (2011: 38) points out that Turkey could not succeed in altering the tourist profile in favour of high-spenders and the foreign tour operators have increased their bargaining power.

Furthermore, Turkey's cultural tourism is being undermined by the all-inclusive system, which became widespread in the late 1980s, some sector representatives have said, "Cultural tourism existed well before beach tourism flourished in Turkey, but has lagged behind due

to the fact that it has been overlooked for years," However, this system comes with its own problems, one of which is the tendency of agencies to direct tourists to beach tourism rather than cultural tourism. Ahmet Tok, the head of the Cappadocia Tourism Operators Association, or KAPTİD, says "Organizing cultural tours is much more difficult than beach tourism, and necessitates taking initiative and risks, It is easier to bring tourists to a giant hotel and let them stay there for days without setting foot outside than to arrange their transportation from one place to another, meet their needs during transport and try to solve problems." He added that agencies also offer lower prices for groups (Çal, 2010).

According to the tourist profile figures provided by Efes Pilsen (2008) 76.1% of the tourists spend their vacation in an all-inclusive facility. In 2000 this ratio was 38 % (Seyahat Analizi 2000). In their study, Akın et al. (2008) found that 84,9 % of the foreign tourists visiting Antalya chose package tours, 81,7 % of them preferred all-inclusive. In Turkey, having first started with five-star hotels and luxury holiday villages, the use of an all-inclusive pricing system over the past few years has spread even to one-star hotels, apartment hotels and family-owned bed and breakfast establishments operating on quite rudimentary bases. This is mainly due to the increasing popularity of all-inclusive pricing among consumers and the influence of tour operators who increase their overall revenues (Koc, 2006:866).

The supply for All Inclusive facilities is naturally growing in response to demand, with Thomas Cook featuring 135 all-inclusive properties in their Turkey brochure alone. Although both TUI and Thomas Cook say "they encourage customers to take excursions and spend time outside the All Inclusive complex", many bars and restaurants in various resorts have faced closure due to lack of business as customers eat and drink within their hotel (Johnson, 2011).

In their study Bircan et al., (2010) notice that there is a disadvantage in the 'all-inclusive system', leading tourists to stay in their hotels, rather than go outside to discover the local community and other features of life in Turkey. Thus, they are spending less money in the local economy. Furthermore, in this context, tourism is considered to be a short-term economic opportunity to make profit, leading to a decline in service quality. Because of this, malpractice in the sector endangers the long-term sustainability of tourism and the conservation of natural, cultural, and historical resources. In addition to this, it is a well-known fact that such an approach also paves the way to several negative impacts on the local community.

The all-inclusive system, in which hotel guests pay a fixed price for all their expenses, including flights, is damaging tourism in Fethiye, many locals say. These visitors spend all their time in their hotels enjoying free food and drinks, contributing little to the town's economy. The local branch of the Turkish Confederation of Tradesmen and Craftsmen, or TESK, Soydemir, the chairman of TESK's Fethiye branch told the *Hürriyet Daily News & Economic Review* (2011) "Tradesmen are really suffering, and although tourism is an important part

of the local economy, the increasing number of all-inclusive hotels means that we now have tourists who contribute very little to Fethiye's economy."

A high dependency on tourism means power relations between local entrepreneurs and residents, and international tour operators are hugely unequal. Tourism Concern has received reports conveying anger, frustration and distress from mayors and hotel associations in Turkey in describing how they had to succumb to pressure from UK operators to transform their hotels into all-inclusives. Analysis of an all-inclusive Holiday Village in Fethiye, Turkey, found that just 10% of the tourist spend reached the regional economy, with economic benefits to the neighbouring Sarigerme village put at even less. For example, estimated average guest spend in the village shops was put at just 1 Euro per guest per day (Datar, 2012).

Tourism Concern (2012), points out that competition between the operators is so intense that margins are pushed all down throughout the supply chain. This means hotels are paid very little for each room, which means leaves them with little to pay their staff. One hotel association contact in Turkey told us that they receive €20 a night for the whole package per person. It is possible to find a holiday package for Fethiye from UK between 350 -380 euros per person per week as part of an all-inclusive package, that includes flights, transfers, the hotel and all the food and drink. If such a re-branding of Fethiye does take place, it will be done following the experience of many other Mediterranean countries that have made similar mistakes over the last three decades and have subsequently attempted to re-position themselves higher on the tourism scale. At present, it can all too easily be argued that Fethiye's tourism industry is unsustainable and economically unviable (Tuna, 2011).

Tourism, which is the second largest industry in Turkey, plays a significant role in the economic development of the country. The growth of tourism industry in Turkey over the past few decades has been phenomenal (Koc, 2006:859). But, when the impacts of the all-inclusive system on the local tradesmen, host

community and the country are considered, the system is seen to lead to significant decrease in their wellbeing.

Academic studies made on the subject in Antalya and surroundings reach similar conclusions.

According to Aktas et al. (2002), the local tradesmen think that the all-inclusive system keeps the tourists within the hotel all the time, resulting in both a reduced number of customers for themselves and a waste economy for the accommodation enterprises that pushes tourists towards high consumption. In their recent studies on the impacts of the AIS on local tradesmen in Alanya - Antalya, Çevirgen and Üngüren (2009), and Üngüren et al. (2009) find that the local tradesmen were not happy with this system. They said that the AIS decreased their profitability, sales, and the overall number of customers and thus employees. The AIS gives harm to the local community and to tourism development of the country in general. It must be abolished! Consequently, all of these results indicate that the AIS has had a negative impact on local business-owners in Antalya (Özdemir et al., 2011:505).

Conclusion

Although all-inclusive package tours are the most growing segment of mass tourism, are not sustainable and worthwhile for host communities and local enterprises. Because, in this system economic leakages are in maximum level. Tourist sending developed countries gain more than host countries, owing to foreign investment, tour operators, air transport, export goods and organizations etc. To be able to benefit more from tourism industry, host countries must develop sustainable tourism marketing strategies. For example; they have to create alternative, genuine, authentic tourism products to attract high income level tourists. They must develop their own marketing agencies, tour operators, airways etc. Sustainable, community based tourism politics must be developed and implemented.

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Mustafa Boz

IMPACTS OF ALL INCLUSIVE TOURS TO HOST COMMUNITIES: TURKISH REVIERA CASE

Summary

Travel and Tourism continues to be one of the world's largest industries. As the world tourism demand rapidly increases, the supply side of the market has begun to gain importance, notably in product diversification, competition, and pricing. Tour operators have developed and implemented various marketing techniques. One of these is the package tour and particularly "all-inclusive system. All-inclusive (AI) package tours and cruises are a growing trend within the tourism industry. They are the fastest growing segment of mass tourism. Their common denominator is the tourist's lack of interest for the host country and the tour operator's control over the tourist's travel budget, and having more profit than other modes. Accommodation establishments implement all-inclusive system sometimes voluntarily, sometimes by force of international tour operators. Tour operators based in the major originating markets affect the nature of tourism development. It is essential to understand the role of tour operators and the changing structure of the tourism industry. Nowadays, the market structure is predominately marked by a handful dominant tour operating groups that are active in all European key source markets and most of them can be regarded as vertically and horizontally integrated (Müller, 2005; PPT, 2004). There is a growing trend for people to book direct with tour operators rather than booking through a travel agent. This trend is set to continue and gather pace as the popularity of the internet, mobile technology and interactive TV grows (BTEC, 2010:38).

All-inclusive package system is mostly beneficial for tour operators, because it is easier to control the overall marketing channels, to make more profit, and to operate easier. Besides advantages, all-inclusive system has negative impacts on customers (tourists), accommodation establishments, local businesses, and host communities. As accommodation establishments work on small profit margins and the price is fixed in the all-inclusive pricing system, the only way to increase profits is to reduce their costs. Costs can be reduced through a reduction in the quality and quantity of inputs. This can be done by delaying replacement expenditures in terms of fixed assets in the accommodation establishments, using inferior quality foodstuff, beverages, etc, and employing fewer and unskilled staff. Nevertheless, AI mode has lot of economic implications, the main being the distribution of the tourist's euro between the main three stakeholders: country of origin, country of destination and the tourist. In most cases, the countries of origin and AI tourists gain more from AI deal than the destination economies (Anderson, 2012:319). Package holidays are increasingly all-inclusive deals, making it unnecessary for tourists to spend money outside the resort, by far the greater part of the money stays in the country where the ticket was bought. Organisations such as *Tourism Concern* have highlighted the negative effects of all-inclusives, such as profits flowing to international hotel chains and international tour operators, rather than the local population – who are often in poorer countries (Mitcham, 2011). As UNEPTIE (2012) emphasizes local businesses often see their chances to earn income from tourists severely reduced by the creation of "all-inclusive" vacation packages. When tourists remain for their entire stay at the same cruise ship or resort, which provides everything they need and where they will make all their expenditures, not much opportunity is left for local people to profit from tourism. Besides negative economic impacts, all-inclusive system has negative cultural, social, environmental impacts on local communities.

AI mode spreads rapidly, in Turkey too. Not only five star hotels, and holiday villages, one – two star hotels also try to implement this system. UNWTO (2012) datum show that in 2011, Turkey moved up one position to sixth place in arrivals with 29 million tourists, nevertheless is twelfth with 23,20 billion USD in receipts. In a survey, realized among travel agencies in Antalya found that, inbound tourism revenues decline per tourist while foreign tourist arrivals increase. It looks like a paradox. What are the reasons of this situation? Different surveys show that all-inclusive package tours are bought by the low and middle-income level tourists. In the past, Turkey has focused on 3S (sun, sea and sand) mass tourism, targeting lower income level tourists. As capacity has increased steadily in coastal areas, the bargaining power of tour operators has grown, bringing an increasing pressure for lower prices (Alvarez, 2010:124). Increasing number of tourists, who come to Turkey, prefer AI package tours. Because they mostly spend their holidays inside the hotels/ holiday villages, and do not make shopping, do not participate excursion tours, etc. local businesses can not benefit from tourism industry.

Although all-inclusive package tours are the most growing segment of mass tourism, are not sustainable and worthwhile for host communities and local enterprises. To be able to benefit more from tourism industry, host countries must develop sustainable tourism marketing strategies. For example; they have to create alternative, genuine, authentic tourism products to attract high income level tourists. They must develop their own marketing agencies, tour operators, airways etc. Sustainable, community based tourism politics must be developed and implemented.

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CSR THROUGH THE LENS OF NATIONALISATION: AN ANALYSIS OF CHANGES IN A ONCE PRIVATE LATVIAN BANK

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Abstract

The present research paper is dedicated to the analysis of impact on Corporate Social Responsibility (CSR) activities implemented by a once private bank Citadele (former Parex) on customer's views after its nationalisation. The goal is to analyse the notion of nationalisation and the history of Citadele bank, and to scrutinise CSR policy and its aspects. Research aim is to explore the impact of CSR activities implemented by Citadele Bank on customers' views after the nationalisation of the bank. The research methodology involves the analysis of the existing theoretical literature and a quantitative research method - survey conducted by an international research agency.

Keywords: CSR, nationalisation, banking industry, Parex, Citadele, Latvia, analysis, survey.

JEL Classification: M14, G21, L21.

Introduction

Almost all financial institutions and enterprises are implementing CSR policy; however, not many people are aware of such activities.

The **significance of the present research** is that in the present days nationalisation in the banking sector is particularly relevant to the Baltic countries, which for a long time suffered problems related to the financing of government budgets, as they were not able to avoid the bankruptcy of several credit institutions.

The research concentrates on the Latvian commercial bank Citadele (former Parex), which underwent the bankruptcy procedure which was followed by nationalisation in the period from 2008 until 2009. It is based on the primary author's (Aleksandrs Judins) dissertation for the Award of MBA Degree from the Manchester Metropolitan University.

The **problem of the research** is the influence of nationalisation process on CSR activities implemented by Citadele bank.

The common recognition of the research significance and the problem stated above provide the authors with the opportunity of formulating three hypotheses. **Firstly**, we may assume that public is more aware of CSR activities and it has an effect on their view of the bank and subsequently their trust in the bank. This leads us to a **second hypothesis**, which allows for the presupposition that the nationalisation of Citadele bank brought into focus the CSR activities of the bank, as customers who were affected by the economic crisis are looking for a bank that offers more than simple banking services and one that demonstrates genuine concern for, and commitment to its responsibilities to society, not just to its shareholders. The **third hypothesis** states that with

the bank understanding and acknowledging these concerns, they are promoting CSR programmes, sponsoring good causes and being seen to operate in a more ethical and philanthropic manner, and promoting themselves as a safe, reliable and honest financial institution with customers interest at heart. Then question arises – with public demanding their banks act responsibly, it may be assumed that the bank will use visible CSR to promote, rebuild and enhance their reputation, without genuine intent to deliver on those policies.

The **subject of the present research** is CSR policy aspects, the notion of nationalisation and the history of Citadele Bank.

The **object of the present research** is Citadele Bank (former Parex Bank) that has been selected due to the primary author's (Aleksandrs Judins) personal involvement, as he has been an employee of the bank for a four-year period, starting from 1997 until 1999 and from 2005 until 2007.

The **goal** of the research is to analyse the notion of nationalisation and the history of Citadele bank, and to scrutinise CSR policy and its aspects. The **other aim** is to explore the impact of CSR activities implemented by Citadele Bank on customers' views after the nationalisation of the bank.

In order to achieve the aforementioned goals and prove the hypotheses of the research, the following **enabling objectives** have been put forward:

- 1) to study the existing theoretical literature dedicated to the term “nationalisation”;
- 2) to explore the theoretical research devoted to CSR policy;

- 3) to scrutinise the archive of Bizness & Baltija (Бизнес и Балтия) business newspaper for articles on Parex (Citadele) Bank;
- 4) to select the articles devoted to Parex Bank;
- 5) to analyse the selected articles devoted to Parex Bank;
- 6) to conduct an additional research impact of CSR activities implemented by Citadele Bank on customers' views after the nationalisation of the bank (conducted by GFK Custom Research Baltic agency);
- 7) to find out how significantly in Citadele Bank's customer view the bank's CSR activities affect the business environment in Latvia, society and national development;
- 8) to establish whether there are significant differences in how CSR activities implemented by the bank prior and post its nationalisation affect the bank's image;
- 9) to find out which CSR activities in accordance with the opinion of respondents are most valuable – the ones that can improve the bank's image most significantly;
- 10) to analyse Citadele Bank customer awareness of the bank's CSR activities;
- 11) to scrutinise the assessment of CSR activities implemented by Citadele Bank;
- 12) to summarise the recommendations for strengthening Citadele Bank's cooperation with its customers.
- 13) to summarise the results of the research and draw relevant conclusions.

The **method** of the research is quantitative research method used for implementation of survey – online poll (CAWI – computer assisted web interviews), conducted in cooperation with an international research agency (GFK). The research involves the analysis of the theoretical literature.

Target group is Citadele Bank' clients – Latvian residents who currently use banking services of Citadele bank and are reachable via the Internet.

Sample size - in total, 316 interviews were carried out with existing customers of Citadele bank, who were reachable via the Internet. The sample size is sufficient to analyse the results of this target group with 6.5% accuracy at a 95% probability, which is optimal for accurate measurement to use for purposes of a scientific research. It is essential that the information gathered in the survey represents viewpoints of economically active persons - Internet users, rather than views of all Citadele's customers about the impact of corporate social responsibility of Citadele on the image of nationalised bank. Clearly defining the target group and the accuracy of the results obtained, the survey is representative for the above-mentioned target group.

The present research consists of the introduction, four chapters, conclusions, three figures, list of references that contains 33 entries, and 3 appendices.

Chapter 1 is dedicated to the insight to the history of success, crisis and rebirth of Citadele Bank (former Parex).

Chapter 2 provides an insight into the notion of nationalisation. It also answers the question “Why banks are nationalised”, gives a brief introduction into nationalisation in the sphere of banking, and provides information on Latvian experience in this field.

Chapter 3 is devoted to the CSR policy aspects, CSR in Latvia and in the banking industry. The chapter also highlights the notion of “financial exclusion”.

Chapter 4 provides an analysis of survey results on Citadele Bank customers view about the bank's CSR activities, conducted by GFK research agency, which is one of the world's largest research companies, with around 13,000 employees.

Research limitations – “CSR” is an innovative term in Latvia. The results of the survey prove the present statement. In addition, in Latvia, only several studies are completed regarding the current topic.

Research implications – According to the study, only 12% out of 316 respondents were fully aware of Citadele's CSR activities with 41% being unsure and 47% having no awareness.

Originality/Value – Despite the fact that similar researches have been conducted in various countries, the present paper is one of the first studies related to Corporate Social Responsibility in the banking sphere in Latvia. Moreover, the present research provides valuable recommendations to the bank and a ground for further study on CSR policy.

Crystallisation of Parex

Parex cooperative was established in 1988 by two energetic entrepreneurs in search of new business ideas – Valery Kargin and Victor Krasovitsky, were engaged in the tourism business. The owners were organising tours for Riga's guests, highlighting Latvian sightseeing. With the collapse of the USSR, new market niches started to appear. These niches were known before, nevertheless, in Soviet times they were considered as prohibited and persecuted. One of them was currency exchange. In the USSR period, many businesspersons who tried to make money in currency exchange were prosecuted, and in the epoch of Khrushchev, some were even executed.

However, times changed, and the environment for entrepreneurship began to transform. Nevertheless, we should point out that Kargin and Krasovitsky were taking a colossal and almost incommensurable risk at the beginning of their activities, as at that time, there was still KGB activity in the country and people did not know if the previous political situation would return.

From the history of the cooperative: “the name Parex was not created by us, it was there before us. Nobody questioned what it meant... Parex was a cooperative under the umbrella of the city committee as were all other institutions established by the city committee... Parex was sold for 5 000 soviet roubles and became ours” (Kargin, 2005).

Thus, currency exchange activity gradually began to acquire legal turnover and “on the 3rd of April, 1991, the president of Latvian Bank Pavel Saks issued a signed license Nr.1 for currency exchange. On a simple piece of paper was written this laconic text: “Buying and selling

of currency is permitted in specially equipped premises on 8 Valdemara Street and in the head office of Parex at the Central Station” The first currency operations were performed at the head office, which was located in the premises of Komsomol city committee, not in the Central Station. From a commercial point of view, the terminal with its constant jostling was more attractive, however, the chill of fear that hovered over us, made us cautious. Therefore, the first currency exchange point started to work in the city committee, and it was the correct decision: a large amount of money was exchanged there, and these people were not people from the street” (ibid).

Subsequently, the activity has improved and with rapid success went uphill: “We were very mobile. We sent money by planes; people brought us bags, trunks, suitcases, even plastic bags... Cash and non-cash roubles flowed to Riga, to Parex from other cities of the Union, to buy currency. Tens of millions per month, hundreds per year!” (ibid).

Customers came to their Parex currency exchange point in Riga Central Station from as far afield as Siberia. Parex’s slogan at the time was: “We are closer than Switzerland” (2000, Forbes, cited in Kargin, 2005). The slogan started to be associated with Parex bank among Latvian and Russian citizens, and it represented the availability and the analogy of working by Swiss methods, including the security and confidentiality of client information.

Currency exchange business quickly became successful “In 1992, Parex had 76 currency exchange points, and we were the leaders on the currency exchange market not only in Latvia, but also in the territory of all former USSR countries. “...we were, in fact, as small, but growing bank” (ibid).

Founding and Development of the Bank

On 30th of April 1992, the Bank of Latvia issued license Nr.32 and on 14th of May, the Company Registry registered Parex bank. In June 1996, the bank was accepted into the International Chamber of Commerce (ICC), becoming the first Latvian company to join its ranks. (Бизнес & Балтия, 1996).

In 1996, Parex opened their first cash machine that accepted Visa, EuroCard/MasterCard. There were only 15 cash machines that accepted EuroCard/MasterCard in Riga that year. A new cooperation started with American Express.

In mid 1996, the bank was actively developing leasing and factoring services, which followed by establishing Parex Lizings Ltd. In that year, the leasing portfolio was worth approximately 20 million Lats.

Parex stirringly supported CSR initiatives - on a regular basis throughout its activity, the bank financially supported the Latvian Children’s Fund. Parex bank also supported arts, helping to sponsor events, devoted to international opera and Latvian ballet star Andris Liepa.

In 1999, Parex received an international Ba2 evaluation on long-term foreign currency deposits. The rating on long-term deposits received a BB+ mark. Starting in 2000, Moody’s Investor Service has confirmed Parex ratings (Бизнес & Балтия, 2000). In the

same year, Parex was awarded the best local bank and the best broker company by EuroMoney magazine. According to the Institute of Economic Researches LETA, 35.9% respondents acknowledged Parex Bank as the most reliable bank in Latvia: the bank took the second position, behind Latvijas Unibanka. At the same time, in the framework of the study, Parex took the leading position among the surveyed population with the highest income.

In 2001, the authoritative publishing The Banker placed Parex Bank in the list of the one hundred largest banks in Eastern Europe, where the bank ranked 51st according to the volume of its net worth. Experts gave Parex 28th place, according to the rates of growing net worth, and 19th place for the indicator of growth of assets.

In November 2001, the bank significantly improved its performance in terms of assets growth. Bank assets were 688.314 millions of Lats (979.388 millions of euro). Judging on the volume of assets, Parex was the largest in Latvia. Already having a successfully operating branch in Lithuania, in the same year Parex Bank started to provide its services in the Estonia capital Tallinn.

In early 2003, for the third consecutive year Parex Bank has taken the initiative on CSR subject by gifting two minibuses and sports equipment to the Latvian Children’s Fund and Riga Haematology Centre within the framework of the “Heart to Heart” charity event.

According to the Association of Latvian Commercial Banks, in the year 2005 the volume of Parex Bank assets had increased by 13.6% during 8 months, and had reached 1.589 billion of Lats (approx. 2.260 billion of euro). The authoritative edition Euro Money recognised Parex Bank as the best Latvian bank of 2005. In early 2005, Parex Bank received an exclusive right to produce and issue American Express cards in Latvia.

In February 2006, international rating agency Capital Intelligence affirmed the long-term foreign currency rating of Parex Bank at BBB- level and short-term foreign currency rating at A3 level. In addition, the bank received the rating of financial stability on BBB-level and the support rating of “4”. At the same time, Capital Intelligence retained the possibility of increasing ratings of Parex Bank, assigning it a positive outlook.

We once worked as seven people, and today’s Parex employs three thousand people (Kargin, 2005).

In February of the year 2007, Parex bank received the record size of a loan of 385 million euros. This was the largest syndicated loan ever granted to Baltic financial institutions. Mizuho Corporate Bank Ltd., Sumitomo Mitsui Banking Corporation Europe Limited became mandated lead arrangers of the loan.

In April 2007, Moody’s financial agency affirmed investment rating of Parex Bank of Baa3 (until February 25, 2007 Parex was rated as speculative - Ba1). Vice president of the bank on financial affairs Eric Brivmanis pointed out that Parex Bank became the only financial institution among the Baltic States, the rating of which reached the level of investment grade after last revision by Moody’s Investors Service agency. “The most honourable fact is that the rating was given to a bank, which does not have any external support: Parex is not

supported by the State or “The big Swedish Mother”” (Бизнес & Балтия, 2007).

The systematic line of the development of Parex was to open foreign branches. Branches of Parex Bank were actively operating in more than 15 countries, including Sweden, Japan, Bulgaria and many former USSR republics. The activities of the bank were especially successful in the neighbouring Baltic countries, where the bank held leading position since nineties.

The Origins of the Crisis

After a year of work, the press started to publish articles on Parex bank liquidity problems. Parex then turned to the Bank of Latvia, asking to provide loans secured by assets. It was the end of October of the year 2008, when the outflow of funds started. According to a rough estimate, local clients, including state and municipal agencies, as well as foreign investors removed 240 (about 342 million euros) million Lats from the bank in just a few days. On November the 8th, at an emergency cabinet meeting it was decided to nationalise the bank de facto. The controlling stake of 51% was sold for 2 Lats (1.40 euros) and was moved to the state bank Latvijas Hipoteku un Zemes banka (LHZB). Other 34% of assets, which remained in the possession of ex shareholders Valery Kargin and Victor Krasovitsky (formerly they owned 42.42% of shares each), along with personal assets were pledged to LHZB.

According to the opinion of former owners of the controlling stake, the day of the collapse is October 21, 2008. On the same day, the Swedish government announces the programme of state support of Swedish banks (including operating in the Baltics SEB bank and Swedbank, providing about 150 billion euro for such target). Latvian banks did not receive such support.

Subsequently, the state began to actively allocate funds in the accounts of the bank, and by March of 2009, the volume of allocated funds totalled 837.317 million Lats.

Nationalisation in the Sphere of Banking

“Nationalisation means transferring the ownership or control of one or more banks from the shareholders to the government and can vary from full or partial nationalisation and be either temporary or permanent” (Elliott, 2009).

Why Banks are Nationalised?

The decision to nationalise a once private business or industry is taken by governments for a variety of reasons: to rescue a failing bank, bring poorly managed organisations under state control or, as was the case in Soviet Russia, for social and political reasons. Since 2007, the world has experienced a period of severe financial stress, not seen since the time of the Great Depression. Many countries were significantly affected by these adverse shocks, causing systemic banking crises in a number of countries, despite extraordinary policy interventions (Laeven, Valencia, 2010). Governments around the world were faced with unpalatable policy

decisions over how to limit the damage caused by the systemic banking crisis to their respective economies. In the case of several banking giants and, as a measure of last resort, the decision was taken to nationalise and thus bring under state control the assets, organisation and running of the banks while assuming debt.

Bank Nationalisation: Latvian Experience

In the case of Latvia's Citadele bank (formerly Parex) that we are scrutinising, nationalisation was a decision determined by the government's intention to save Latvia's financial system. Parex was the systemic, second-biggest Latvian bank, serving individuals as well as businesses and governmental authorities. The Latvian authorities stated that it was the crisis, accompanied by mistrust from the financial markets and difficulties in obtaining financial resources, that was the main reason for Parex receiving government support. On 8th November 2008, the Latvian government took control of Parex through an initial 51% share package, which was later increased to 85% control of the bank's capital (Kolyako, 2008).

The overall dissatisfaction of the Latvian population with Parex's bailout was due to several reasons. Firstly, the financial problems encountered by Parex created panic among the bank's clients who feared losing their deposited money (ibid). Secondly, the process of nationalisation was carried out in secrecy, and Latvians were informed of what was going on and why nationalisation had taken place only post factum (Greenhalgh, 2010). Thirdly, and most importantly, Parex's bailout was done at the expense of Latvia's budget, including the pension fund of about 1 billion lats, which for the special purpose of the bank's nationalisation was simply merged with the main state budget.

These and many other ungainly facts of Parex's bailout have contributed to the significant damaging of the bank's image, and resulted in almost irrecoverable customer dissatisfaction and disloyalty.

Nevertheless, the Latvian authorities in charge of Parex's restructuring into Parex as an asset management company that will handle non-performing loans, real estate and other bad assets, and Citadele with healthy assets as a retail bank for the sale of both, have somehow managed to save the bank's reputation (BBN, 2010). Last year, Citadele (2012a) is positioned as a “a full-service financial group for both private individuals and companies offering the complete portfolio of banking, financial and private capital management services in its home market Latvia and through its international presence.” As its mission, Citadele (2012b) wishes “to inspire people and enterprises to economic growth, and to enhance good changes in Latvian and the whole Baltic region's society”, by re-inventing banking “by making Citadele a simple, reliable, honest and socially responsible bank”. Applying professionalism, pro-activity and team work, Citadele (ibid) should become “the most valuable local financial group in the Baltics”, for shareholders, clients and employees.

The Notion of CSR Policy

Presently vast majority of businesses, banks and other institutions are applying Corporate Social Responsibility (CSR) policy in to their practice. Beyond profit maximisation businesses have responsibilities to society, as large corporations are able to control and affect the quality of life of their employees, shareholders and customers. The abovementioned power entails social responsibility. Already in 1916, J. Maurice Clark stated that “If men are responsible for the known results of their actions, business responsibilities must include the known results of business dealings, whether these have been recognized by law or not” (Clark, 1916). European Commission in 2001 notes that “Being socially responsible means not only fulfilling legal expectations, but also going beyond compliance and investing more into human capital, the environment and relations with stakeholders (European Commission, 2001).

The analysis of CSR is still in an embryonic stage and critical issues regarding frameworks, measurement, and empirical methods have not yet been resolved (Academy of Management, 2003). Therefore, CSR still has various definitions. The World Business Council for Sustainable Development (WBCSD, 2001) defines 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”. This statement emphasises the power of impact that businesses may have on society. Sparkes (2003) highlights that in economic terms CSR is a “constraint upon business activity which must be integrated into management decision making in order to maximise long term profits”. The present definition is supported by Decker who highlights in her paper that “this definition of CSR presents the view that pursuing a CSR agenda is not incompatible with profit maximisation and does have a place in a market economy and in achieving the commercial objectives of business activity” (Decker, 2004). This means that CSR policy can be seen not only as a responsibility but also as an instrument, which can accumulate profit to the company that is applying the policy. As emphasised by World Bank (2005, cited in Khan et al, 2009), CSR is the commitment of business organizations to contribute to sustainable economic development through work with employees, their families, the local community and society at large with the main purpose to improve the overall quality of life, in ways that are good both for business and society. Connolly’s (2002, cited in Ralston, 2010) definition of CSR illustrates why socially responsible policies implemented by financial organisations are truly important for society: Corporate social responsibility (CSR) is the alignment of business operations with social values. CSR consists of integrating the interests of stakeholders that are affected by a company’s conduct – into the company’s business policies and actions. CSR focuses on social, environmental, and financial success of a company – the so-called triple bottom line – with the goal being to positively impact society while achieving

business success. (Connolly, 2002, cited in Ralston, 2010, p.398)

Concluding from the statements above and the scrutinised literature on CSR, we can divide CSR into 2 categories.

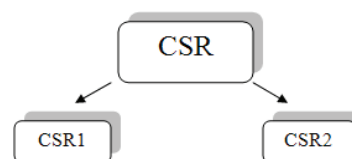


Figure 1. CSR Categories

CSR1 is oriented towards the social, environmental and society concerns. **CSR2** focuses on business, shareholders and profit. There are common areas of both forms of CSR; however, one will usually override the interests of the other. CSR1 can sometimes be detrimental to the running of a business, imposing new working methods and policies not aimed maximising profit. CSR2 is seen as favouring the financial interests of business first and showing insincere support to other issues. All CSR policies are currently designed and implemented by the business along guidelines they themselves choose. They can choose apply any CSR policy aspect, which suites their business. A problem arises, as CSR is not an obligatory policy, therefore, it is open to abuse. Only directors with specific and personal interests in social and environmental issues can hope to achieve true CSR within the framework of their business. Legislation or officially recognised certification through external organisations is perhaps the only viable way of establishing constants in CSR policy where business and consumer interests are equally represented.

Some authors who scrutinise CSR state, that “it needs to be thoroughly considered and treated as any other investment” (Castka *et al.* 2004). McWilliams and Siegel (2001) earlier highlighted that the core return on investment in CSR is finding the optimum level that balances the need for maximising “profit for CSR” while satisfying the “demand for CSR” from multiple stakeholders. Castka *et al.* offered their resolution of that balance as a figure below.



Figure 2. Key CSR equilibrium
(Castka et al. 2004, p 222)

Here a parallel can be drawn – “Profit from CSR” is “CSR2” (oriented towards the social, environmental and society concerns) and “Demand for CSR” is “CSR1” (focuses on business, shareholders and profit). We strongly support the figure above, as it is significant to find the balance between CSR1 and CSR2 for CSR policy to work in general. Judging from the *Figure 2*, the balance should be equal (fifty fifty).

For further study, we recommend to move on to the CSR further on implementation in the banking

industry, as we are specifically scrutinising CSR application in that sphere.

Aspects of Corporate Social Responsibility

There are four aspects of CSR, which include economic, legal, ethical and philanthropic responsibilities.



Figure 3. Exam Four-layer pyramid of CSR (Carroll, 1991, cited in Carroll and Buchholtz, 2009, p.45)

According to the above figure, a socially responsible bank should strive to:

- make a profit;
- obey the law;
- be ethical; and
- be a good corporate citizen (ibid)

CSR in Latvia

Despite the fact that CSR is not compulsory by Latvian legislation, it is practised by major Latvian banks. The research concentrates on the Latvian commercial bank Citadele (formerly known as Parex), which underwent the bankruptcy procedure that was followed by nationalisation between 2008 and 2009.

By the end of the twenties century, Latvia was in transition to a market economy and civil society (King, 1997). The application of CSR policy in Latvia dates back to 1974, when successful textile firm "Rīgas Audums" were providing their employees with better wages and working conditions. According to Maessen (2007), their views were akin to modern concepts of stakeholder primacy in CSR. This, we could conclude that some concepts of CSR policy may have been used even in earlier years. However, at that time there was no such definition as CSR. This also implies that CSR development in Latvia was parallel to other countries. Petersons and King state that in the overall context of CSR, the costs and benefits were directly associated with internal business activities, generally in line with long established values. The side effects, or externalities in the language economists, were largely ignored (Petersons, King, 2009).

Currently "banking supervision and the legislative framework is well advanced and it is one of the strictest in Central and Eastern Europe. The principal basis of Latvian credit institutions is determined by the "Law on Credit Institutions" adopted in 1995". In 2003 there were 22 commercial banks united under the Association of Latvian Commercial Banks (Zubkova et al., 2003). According to Brige (2006), Latvia has set up a universal banking sector. All banks are mostly operating as commercial banks, offering a wide range of traditional banking services (including Parex and now Citadele) such as account maintenance and settlement, lending and financial leasing, asset management, etc.

Citadele implements its social responsibility campaigns through the movement You Are. You Can. launched in the spring of 2012 as a support programme for the participation of the Latvian team in the London Paralympic Games. Part of Citadele's marketing investments, as well as all the donations made by its employees, clients and other supporters are used for the implementation of programmes of the Latvian Paralympic Committee, as well as other social responsibility programmes aimed at inspiration and involvement of disabled people in society, as well as their support through positive and encouraging information (Citadele 2013a). The majority of Citadele's employees are active members of the movement You Are. You Can.

Currently Latvia is preparing for the introduction of Euro. Citadele Bank has been preparing for the transition to Euro actively since 2012 in order to ensure that the introduction of the new official currency is simple and convenient for their customers (Citadele 2013b). The bank offers ordering encashment service and preliminary Euro delivery service of Citadele bank and provides detailed information on introducing the Euro in Latvia, which may be helpful for residents and non-residents.

CSR in the Banking Industry

Banks, like other businesses, apply CSR policy in to their practise. In the banking industry, CSR is known as Community Service Banking, which was introduced by the banks in 1973 with a view to assist the identified target group belonging to the weaker and downtrodden sections of the society both under its Banking and Non-banking activities. The banks were among the first to accept, as part of its corporate philosophy, that human and financial resources at their command should be mobilized in discharging the social role (Narwal, 2007). As it is mentioned before, during 40 years of application, CSR still does not have a unified, standard definition.

In the present days, banking services are necessary for participating in modern economic life. Even to receive a salary or pension a person needs a bank account. Nevertheless, banks are businesses that provide services, which can lead to *financial exclusion*. It refers to inability of individuals, households, socio-economic groups or communities to access necessary financial services in a manner suitable for their needs (Decker, 2004).

In Latvia, on the 19 of November, 2009, a respected Latvian business newspaper Bizness & Baltija

(Business and the Baltics) printed a 3 page article “A Human Outside the Banking System” (Человек за бортом банковской системы) detailing a common practice among Latvian banks of withholding, limiting or cancelling access to their financial services for certain clients without offering the client any explanation. In the article, a bank customer tells of how he was left without being able to use his bank account to pay his bills.

According to the table on the level of financial exclusion in individual European 25 countries, created in 2003 and published European Microfinance Network website, Latvia has one of the highest levels of financial exclusion. This also proves the abovementioned example from the newspaper, as in EU 10, where there is 34% of financial exclusion among adults, Latvia has the highest rate of financially excluded people. The lowest rate is held by Slovenia. Countries from EU 10 are the most vulnerable to financial exclusion especially Latvia. Lithuania and Estonia.

CSR, in its turn, when implicated can help prevent social exclusion by making bank services more available to all layers of society and geographical location. For example, by making the creating and maintenance of a basic bank account free of charge, by placing more ATMs, by making ATMs accessible to people with physical disabilities. In case of financial services, the needs of consumers are “security, access, liquidity, interest and social responsibility” (Reifner, 2007). Therefore, to prevent financial exclusion the abovementioned needs shall be fulfilled.

Questions

With public focus on these issues and a general desire for CSR to become a norm in society, the questions should be asked: *Who should decide what CSR policy is and who should be responsible for it*

Survey on Citadele Bank Customers View about the Bank's CSR Activities

A survey was commissioned to question Citadele Bank account holders about their views and experiences regarding the Bank's Corporate Social Responsibility activities. The questions were developed by the authors of the paper in order to ascertain sample data for the purpose of proving the hypotheses of the present research. The survey itself was conducted on behalf of the authors, by GFK research agency, which is one of the world's largest research companies, with around 13,000 employees. The survey was carried out in August and September of the year 2013, sampling 316 Citadele Bank clients, who were reachable via the Internet. The sample size is sufficient to analyse the results of this target group with 6.5% accuracy at a 95% probability, which is optimal for accurate measurement to use for purposes of a scientific research. It is essential, that the information gathered in the survey represents viewpoints of economically active persons – Internet users, rather than views of all Citadele's customers about the impact of CSR of Citadele on the image of the nationalised bank. Clearly defining the target group and the accuracy of the results obtained,

the survey is representative for the above-mentioned target group. A detailed analysis is available in Appendix 3 of the paper.

Conclusions

Customer awareness of Citadele's CSR activities has increased, although not significantly. It may be a general lack of public understanding of the actual term ‘corporate social responsibility’ that is the cause of this uncertainty among customers as respondents do indicate, throughout the survey, their awareness of activities and policies that are within the scope of CSR even if they are unaware of the terminology.

Trust in the bank is a more difficult matter to assess. There does appear to be a level of cynicism directed towards CSR activities, as is evident by responses to question Q10, however, customers are, in general, more satisfied with how Citadele operates following nationalisation. Concerns for the safety of their money, although still evident, are lessened due to the bank now being partly under state control and somewhat guaranteed. The abovementioned fact proves our first hypothesis.

It will come as little surprise that Citadele customers are acutely aware of failings in the banking industry as being generally responsible for the hardships they have endured during and following the financial crisis as Latvia has, more than most EU countries, experienced very harsh austerity measures. When asked about key issues that they see as important for the bank to focus on, there is a strong indication that legal and ethical issues outweigh trivial issues such as waiting times, ATM locations and queuing. We can surmise that customers are now much more aware of, and take an interest in, how their banks are run and how they perform; and more importantly, that their banks are acting, first and foremost, in the best interests of their customers. Our second hypothesis is proven.

With banks fully aware that their operations are now, more than ever, under closer observation from customers, tighter legal regulation and, in the case of Citadele, under state control, it is to be expected that, for a bank to rebuild its reputation, it must go further, be more open and be sincerely supportive of the society in which it operates. It is not surprising that customers may view CSR initiatives with a cynical eye and that many may be dismissive of such activities, but it is imperative that banks continue to further involve themselves in CSR initiatives and be seen to be doing so. Citadele bank is actively promoting itself through CSR involvement in good causes, such as support for the Paralympics movement and this should not be seen as grandstanding or conversely, altruistic, but as a good indication of the banks' willingness to engage in socially responsible endeavours for the betterment of the community. It is only through continued, open and sincere involvement in the community through support for good causes, the improvement of its customer services and by demonstrating that the bank has learned important lessons from the hugely damaging financial crisis that it will have any chance of changing the perception of a weary public,

whose trust in them was severely damaged. Our third hypothesis is proven, however it will take many more

Recommendations

Although stricter regulation and state oversight will mean Citadele bank is somewhat forced to adopt a more socially responsible program it is encouraging that its initial CSR endeavours have made a positive impact to certain good causes in Latvia. It is also apparent from our survey that improvements have been made in key areas such as customer service and efficiency but it is only through continued and closer interaction with its customer base and society that it will prove to be a different bank than the one it replaced.

Our conducted survey does indicate the need for Citadele to increase awareness of its CSR activities among its own customers. It is apparent too that more prominent online information will be a beneficial method of informing customers about CSR as the majority are regular users of the banks internet services.

Philanthropic and ecological issues, although commendable, are currently seen more much less important to our surveyed customers than improvements to traditional banking services that would directly affect customer experience; however, the age group of respondents should be taken into account, as issues such as ecology are typically more popular among young people.

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initiatives and time before we will see the true motives behind Citadele's CSR initiatives.

It may be the case that, so soon after nationalisation and with people still feeling the effects of the economic crisis, it is more important to customers that the bank, first and foremost, prove itself as a safe place for their money, a reliable business that is open and honest, ethical and law abiding, operating within the parameters of a public bank and is continuing to improve services for its customers before pursuing greater CSR initiatives and, that any large-scale CSR initiatives, are undertaken in consultation with customers. Openness and providing more information to customers is key to improving the banks reputation and, in-turn, building greater trust in its operation and subsequent future CSR activities.

After scrutinising theoretical literature, in addition we can assume that the implementation of CSR on an official scale can reduce shadow economy, as working in an institution that uses CSR activities would be more attractive to the potential employees. Moreover, obligatory CSR activities could increase employee's work motivation, as they would be working for an organisation, which follows ethical, philanthropic, legal and economic aspects, i.e. benefiting the employees themselves.

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CSR THROUGH THE LENS OF NATIONALISATION: AN ANALYSIS OF CHANGES IN A ONCE PRIVATE LATVIAN BANK

Summary

In order to prevent damage to the economy of a particular country, its government may, in special cases need to take action by nationalising a failing bank. Such issues arose in the Baltic countries, which, for a long period, suffered problems relating to the financing of government budgets. This led to the unavoidable bankruptcy of several credit institutions.

The present paper is a case study of an analysis of changes in a once private bank – Citadele (formerly Parex Bank), which underwent the bankruptcy procedure and was subsequently nationalised during the period from 2008 until 2009. In this particular case, the Latvian government made the decision to overtake Parex Bank. The article analyses how nationalisation had an impact on CSR activities implemented by the bank and how this affected customer views of the bank following nationalisation.

The paper has its research limitations. "CSR" is a relatively new and often misunderstood term in Latvia, and the results of the conducted survey prove the present statement. In addition, relatively few studies have been undertaken regarding the current topic within the context of Latvia. The implication is that, according to the survey, only 12% out of 316 surveyed respondents are fully aware of Citadele's CSR activities with 41% being unsure and 47% stating no awareness. Despite this limitation and its implication, the paper does have its originality and value. Although similar research has been conducted in other countries, the present paper is one of the first studies related to Corporate Social Responsibility within the sphere of banking in Latvia. Moreover, the present research provides valuable recommendations to the bank and grounds for further study on CSR policy.

For the purpose of conducting the present study, three hypotheses were proposed. The authors assume that the public is now more aware of CSR activities and this has an effect on their view of the bank and subsequently their trust in the bank. This led the authors to a second hypothesis: the nationalisation of Citadele bank brought into focus the CSR activities of the bank, as customers who were affected by the economic crisis are now looking for a bank that offers more than simple banking services and one that demonstrates genuine concern for, and commitment to its responsibilities to society, not just to its shareholders. The third hypothesis states that with the bank understanding and acknowledging these concerns, they are promoting CSR programmes, sponsoring good causes and being seen to operate in a more ethical and philanthropic manner, and promoting themselves as a safe, reliable and honest financial institution with customers interest at heart. The question then arises – with the public demanding their banks act responsibly, it may be assumed that the bank will use high visibility CSR to promote, rebuild and enhance their reputation, without genuine intent to deliver on those policies.

Before moving to the main topic of the paper – CSR policy, the article provides the reader with an insight into the history of Citadele/Parex bank, revealing its success, crisis and rebirth. This chapter is followed by the scrutiny of the nationalisation process, providing a brief introduction into its notion and the Latvian experience in this field, as well as answering the question "Why are banks nationalised". After studying the abovementioned chapters, the authors move on to CSR policy. Its aspects, implementation in Latvia and in the banking industry in general are deeper analysed.

During the study of the theoretical literature, the authors encountered such terms as "financial exclusion". An interesting fact is, that while scrutinising this particular term, it was discovered that, according to the table on the level of financial exclusion in individual European 25 countries, created in 2003 and published European Microfinance Network website, Latvia has one of the highest levels of financial exclusion. In fact, all Baltic countries have high levels of financial exclusion; however, Latvia takes first place. The authors strongly assume that CSR can help prevent this culture of exclusion by making bank services more available to all layers of society. This can be achieved through the creation and maintenance of a basic, free-of-charge bank account, by the installation of more ATMs, etc, as according to Reifner (2007), the need of consumers are "security, access, liquidity, interest and social responsibility". Therefore, to prevent financial exclusion the abovementioned needs should be fulfilled.

Following the scrutiny of theoretical literature devoted to the abovementioned chapters, focus moves to the second most significant part of the research – a survey of Citadele Bank customers about their views of the bank's CSR activities, conducted by an international research agency. The analysis of the survey allows for proving or disproving the initially proposed hypotheses. In this case, all three hypotheses have been proven. The first hypothesis proposed at the initial stage of the research has been proven – the public is more aware of CSR activities and it does have an effect on their view of the bank and subsequently their trust in the bank. Customer awareness of Citadele's CSR activities has increased, although not significantly. The proposition that the nationalisation of Citadele bank brought into focus the CSR activities of the bank, because customers who were affected by the economic crisis are looking for a bank that offers more than simple banking services and one that demonstrates genuine concern for, and commitment to its responsibilities to society, not just to its shareholders, has also been proven. When asked about key issues that they see as important for the bank to focus on, there is a strong indication that legal and ethical issues outweigh trivial issues such as waiting times, ATM locations and

queuing. We can surmise that customers are now much more aware of, and take an interest in, how their banks are run and how they perform; and more importantly, that their banks are acting, first and foremost, in the best interests of their customers. Finally, the third hypotheses have also been confirmed. Citadele bank is indeed actively promoting itself through CSR involvement in good causes, such as support for the Paralympics movement and this should not be seen as grandstanding or conversely, altruistic, but as a good indication of the banks' willingness to engage in socially responsible endeavours for the betterment of the community. However, it will take many more initiatives and time before we will see the true motives behind Citadele's CSR initiatives.

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DEVELOPING PRESENTATION MAKING SKILLS IN THE PRACTICAL ENGLISH LANGUAGE CLASS

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Abstract

The paper focuses on the difficulties encountered by students in organizing presentations in the English language. Investigation of presentation in English skills development, conducted at Aleksandras Stulginskis University, has established the development of speaking and communication skills to be the greatest advantage named by students. Students see the pre-stress and fear of nervousness and failure to speak fluently as major problems in preparation for presentation in English. Fear of public speaking in group and fear to speak in foreign language are the greatest difficulties encountered by students when making presentation in English. The best way to overcome the difficulties of oral presentation in English is preparation of the presentation together with partner. This investigation emphasises the importance of favourable psychological environment in English classes and the necessity of clear and specialized definition of requirements for making presentations in English.

Keywords: presentation, difficulties, fear, stress, public speaking.

JEL Classification: I290.

Introduction

An intensive pace of modern society requires the specialists in various fields to have the ability of quick, clear and effective provision of information. Advanced technologies facilitate use of various audio and visual aids, therefore in secondary schools and, later, in higher education institutions young people are taught to create public information reports individually and to present them to the audience. Development of technologies makes the information easily accessible and communicable by attractive and easily perceptible methods, however, the human factor related problems that are not as easy to overcome, still remain.

Psychological difficulties complicate presentation of information report seriously. Literature sources mostly refer to the fear of audience, which hinders the presenter from free and fluent conveyance of ideas and communication with listeners (Godev, 2003; Pauley, 2010). Besides, as the English language has become the prerequisite of international communication, use of this language in preparation and giving of information reports complicates organization of presentations as students do not always master this language well enough (Richard & Rogers, 2001). Difficulties related to information search and lack of knowledge and skills in preparation of presentation also occur, which cause additional stress for students and influence quality of their presentations (Godev, 2003). Aiming to improve quality of studies scientists analyse the experience of presentations organization, attempt to systematize it and present to educators.

Aim of this work is to reveal the possibilities of skills development in organizing presentation in the English language.

Object of this work is difficulties in organizing presentation in the English language and strategies to overcome these difficulties.

Objectives of the work:

1. To review the literature on the experience of organizing presentation in the foreign language
2. To identify the difficulties, arising in preparation of presentation in the English language, and to propose the strategies to overcome these difficulties

Methods used in the work: analysis of scientific literature, questionnaire, statistical data analysis.

Advantages of experience in preparation of oral presentation

Oral presentation provides the opportunity to learn the use of rhetorical tools according to the situation. The English language that is used in essay or other written works differs from the non-formal English practised in oral meetings. Thus, oral presentation facilitates extension of speaking vocabulary and its readjustment according to the situation (Hornberger, 1989).

Oral presentation is the creativity promoting process. During presentation the speaker is to generate the ideas, to translate them into the language that is understood by listener and to create the environment where they could be revealed (Oswal, 2002).

Oral presentation is the opportunity for development of student's language skills. The dynamic process makes the speaker to go out of the created frame and use the knowledge of language spontaneously (Oswal, 2002).

When preparing oral presentations on the topic that is close to them, students get engaged and involve their peers into the process of learning. Interest into the

knowledge found by oneself is stronger than that into the information provided by teachers (Wenden, 2002).

Lately, the increasing attention is focused on skills of oral presentation preparation in the English language as this develops communication skills and is particularly important for students in business study programs. (Hadley, 2001; Richard & Rogers, 2001). However, teachers still lack knowledge how to facilitate the process of organizing presentation.

Guidelines for successful oral presentation

In many cases lack of knowledge about the process of preparation, choice and organization of content makes preparation of good oral presentation difficult for students. Besides, many people feel the fear of public speaking and this can be addressed by maximally improved quality of presentation (Godev, 2003).

Definition of criteria for oral presentation preparation. According to Godev (2003), preparation of oral presentation should be started from giving clear requirements of the task performance. This includes clear formulation of the topic, sources of information search, audience support, observation of the preparation process, organization and conveyance of speech, and evaluation.

Formulation of the topic. The selected topic should correspond to the topics discussed during classes so that it naturally blends into the teaching program.

Sources of information search. Information search, usually, is not primary objective of oral presentation skills development, indication of the necessary information sources helps the students to save the time on searching and use it for expression, organization and conveyance of the idea. However, if the teaching program provides analysis and search of information material, the teacher should make students aware of it being one of evaluation criteria.

Communication with audience. Students are concentrated on the evaluation by teacher and, usually, forget that ability to communicate with audience is very important for successful presentation. Distribution of handouts reflecting, at least, the content of oral presentation is recommended in order to improve relation with audience. The presenter should expect listeners' requests and be ready to provide information for explanation.

Observation of preparation process. Aiming to improve student's preparation for oral presentation the teacher should request the student to present the selection of the main ideas, the source of ideas, draft variant, remarks, and comments on the assignment.

Organization of speech. Due to concentration on the information provided in the oral presentation, students may give little time to the speaking itself and have no sense of what should be included into the speech. Ideally, at the beginning of presentation students should give references to what they will be talking about in this presentation.

Introduction to speech. Introduction to speech should provide information on the length of presentation, the importance of slides and the method of communicative relation with the audience.

Evaluation. Evaluation of presentation should reflect not only the use of language during the presentation but other aspects, also. Therefore, it is recommended to review the criteria of oral presentation together with students and to give attention to the use of language, the hand-outs, clearness, quality and organization of ideas, needs of audience and quality of preparation process (Godev, 2003).

Creation of friendly environment for oral presentation. Creation of favourable psychological environment should receive serious attention. In the process of learning students are supposed to make presentations and this scares them a lot. In such cases help is available through structured activity: self-confidence exercises and, experience development (Pauley, 2010). Pauley (2010) suggests creation of supportive and relaxing environment, where every student makes a 10-20 second speech, in the primary stage of oral presentation development. The speech games, recommended by Pauley, are given below.

Catch the word. The first speaker stands up and speaks for about 10 seconds. The last word pronounced by him/her has to be used in the beginning of the next student's speech. Teacher can interrupt the speaker and the next one starts at this word. Teacher can indicate who is to continue.

Travelling tale. The first speaker starts the story and others are to continue it. Teacher controls the time or indicates the name of the following speaker.

Fortunately/unfortunately. It is a circling travelling tale, where every speaker is to take a different direction. After the first student finishes, the next one continues by „but unfortunately ...“ and speaks until is stopped by the teacher. The following speaker starts from „but fortunately ...“ and so on.

Tell the star. This exercise develops imagination and experience of speaking. Every student describes the fancy subject he/she want to play in a movie. The subject is named after the combination of student's pet and street name and then the quality, why the subject could be filmed, is described.

Spaceship. The world has been demolished and the escaping spaceship can take a small number of people who ensure survival of human race. Every student should mention a thing he/she will take to the spaceship.

Having created the relaxing environment with the help of the above mentioned games, Pauley suggests to develop students' impromptu talking, which helps to develop skills of speaking. The understanding that preparation for impromptu speaking is impossible as speaking according to prepared plan is easier is overwhelmingly dominant. Pauley states, that speech plan should be prepared on the very last minute or it should be absent at all. This method enables students to concentrate on the content and to avoid panic about structure or what they are going to say later. Students are given rather simple topics and, by using given short phrases, they have to continue by telling the past, present and future developments in this topic. This work is usually conducted in pairs.

In the following stage students already can prepare oral presentations as participation in the above mentioned

games and impromptu talking situations develops their self-confidence (Pauley. (2010).

Peer involvement into the assessment of oral presentation. Peer involvement into the assessment of oral presentation is increasingly popular in the educational environment. In this way the assessing students are actively involved into teaching activity, develop their language and communication skills while the presenter hears other non-teacher approach to his/her work and, through mutual communication with peers, reaches a higher level of learning (Patri, 2002; Rust et al., 2003).

Peer involvement into the assessment is considered an important component of students' learning and independence development. Unfortunately, in most cases the evaluation criteria are already created by the teacher and all students have to do is to follow them. Usually students do not understand what is covered by one or the other evaluation criteria, therefore, they may not be able to evaluate the presentation correctly or their attitude can differ significantly from that of teacher's. It is recommended to get students' opinion about what aspects of oral presentation are important and to develop evaluation criteria together with the teacher. When defining and creating the assessment structure together with the teacher students gain more responsibility for the process of learning and get actively involved in the activities. Besides, students' comments can be useful in creating the recommendations to oral presentation skills development (Otoshi, Heffernen, 2008).

The increasing peer involvement into the assessment of oral presentation in the English language classes is due to the fact that educators consider it an important constituent of communication in the class (Cheng & Warren, 2005). Thus, teachers need to increase knowledge on principles and methods of peer assessment.

The teachers seeking to improve students' oral presentation skills should present the evaluation criteria clearly: use of language, content, presentation and visual aids. When other students are involved into the evaluation, the assessment criteria should be discussed in advance, not on the day of the oral presentation, so that possible uncertainties could be taken up (Otoshi, Heffernen, 2008).

Analysis of Experience of Oral Presentations Preparation in English

Analysis of skills development in oral presentation preparation in the English language, which was carried out at Aleksandras Stulginskis University, surveyed the opinion of the second-third year students from various faculties. The analysis included the method of convenient selection, the survey was anonymous. 156 students responded to the questionnaire - 107 males (68,6% of all respondents) and 49 females (31,4% of all respondents).

The investigation focused on the 2nd-3rd year students, who encountered the experience of preparation of oral presentations in previous years; therefore it was important to know their opinion about this experience. The respondents were given the methodology, consisting of 9 questions developed by the author of this paper. Of

these 4 questions helped to establish the sociodemographic data of the respondents, 4 questions aimed to see the students' views about the usefulness of oral presentation in the English language, about the difficulties faced during preparation and the presentation itself, and about the possible ways of coping with these difficulties. The latter four questions were supplemented with several variants of answers, each of which had to be evaluated in points (1 point – absolute disagreement with the response, 4 points – complete agreement). One more question was given in pursuance of the help from the teacher desired by students in preparation of oral presentation in the English language. Here the students were asked to write their opinion. The research results are presented in the Figures 1-5.

Figure 1 shows the distribution of students' opinion about the skills developed during preparation of oral presentation in English.

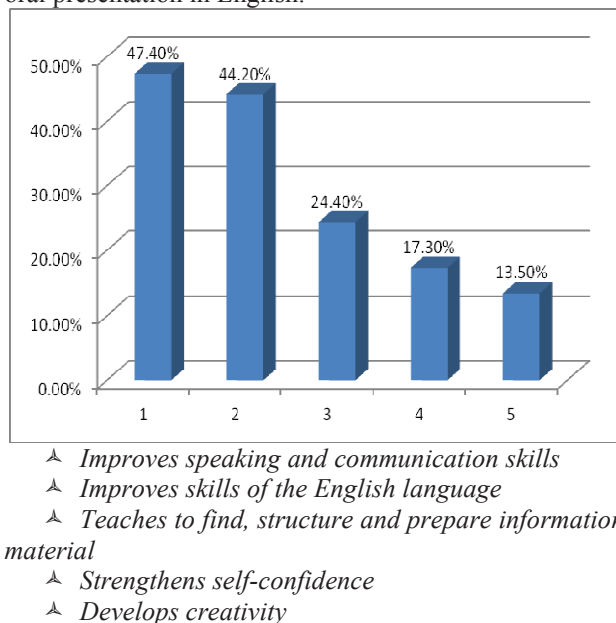
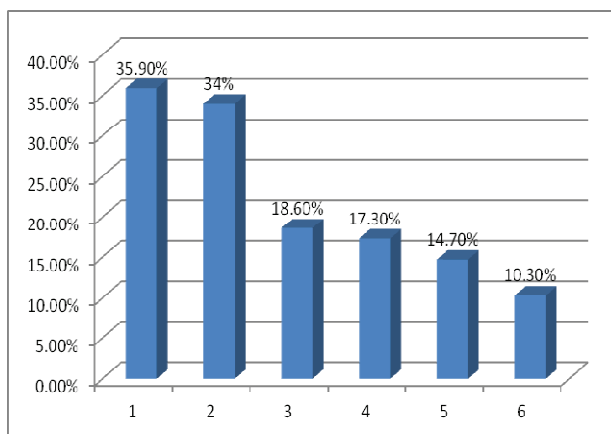


Figure 1. Benefits of the presentation preparation in the English language

Figure 1 shows that 47,4% of students gave the highest number of points to the answer that presentation in English improves speaking and communication skills, similar percent of students – 44,2% gave the highest evaluation to the answer that presentation in English improves skills of the English language. 24,4% of students consider learning to find, structure and prepare information material, 17,3% - increasing self-confidence, 13,5% - creativity development the greatest advantage of the presentation in English.

Figure 2 presents distribution of students' opinion about the difficulties faced in preparation for presentation in English.

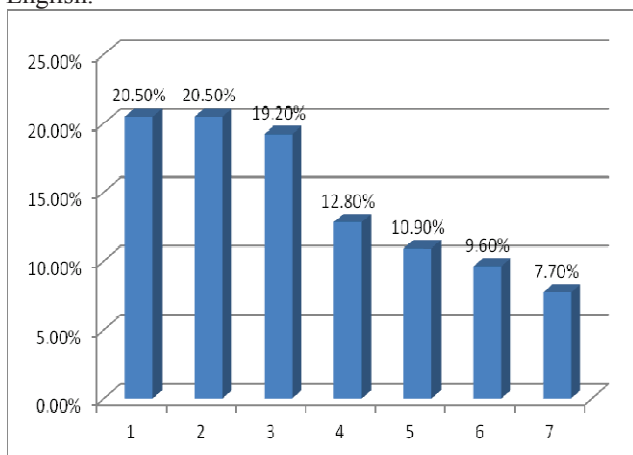


- ▲ *Pre-stress and fear of nervousness and failure to speak fluently*
- ▲ *Selection of the most important information*
- ▲ *Difficulties in search for necessary information*
- ▲ *Lack of self-confidence in preparation of interesting and useful presentation in English*
- ▲ *Difficulties in creating attractive image of the presentation*
- ▲ *Lack of knowledge on presentation preparation*

Figure 2. Difficulties faced in preparation for presentation in English

Figure 2 shows that in the process of preparation for presentation in English the greatest difficulty is pre-stress or fear of nervousness and failure to speak fluently for over one third (35,9%) of students, selection of the most important information for presentation – for similar (34%) number of students. 18,6 % of respondents indicate the search for necessary information as the greatest difficulty, 17,3% of respondents emphasize lack of self-confidence in preparation of interesting and useful presentation in English, 14,7% of students are not proficient in creating attractive image of the presentation. 10,3% of respondents emphasize the answer that they lack knowledge on how presentation should be prepared.

Figure 3 gives distribution of students' opinion about the difficulties faced when giving presentation in English.



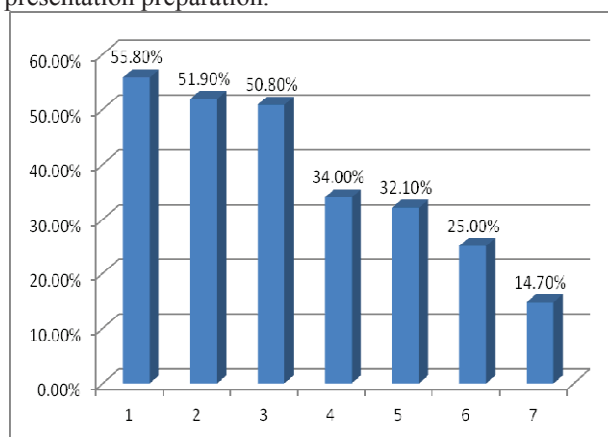
- ▲ *Fear of public speaking in group*
- ▲ *Fear of speaking in the foreign language*
- ▲ *Fear of discussion and questions*
- ▲ *Fear of confusion and damage of own image*

- ▲ *Fear of critical assessment from the teacher*
- ▲ *Fear of critical assessment from peers, fear of failure*
- ▲ *Fear that presentation is not attractive and interesting*

Figure 3. Difficulties faced when giving presentation in English

Figure 3 shows that fear of public speaking and fear of speaking in foreign language are the main difficulties encountered during presentation in English by one fifth (20,5%) of students. Almost the same number (19,2%) of students emphasize the fear of discussion and questions and give the highest point to this question. Fear of confusion and damage of own image is one of the greatest difficulties for 12,8 % of students, 10,9 % of respondents worry about possibly critical assessment from the teacher, 9,6% of students name critical assessment from peers as one of the greatest fears, while 7,7% of students are most concerned about attractiveness and interest of their presentation.

Figure 4 presents distribution of students' opinion about the ways to overcome the difficulties of presentation preparation.



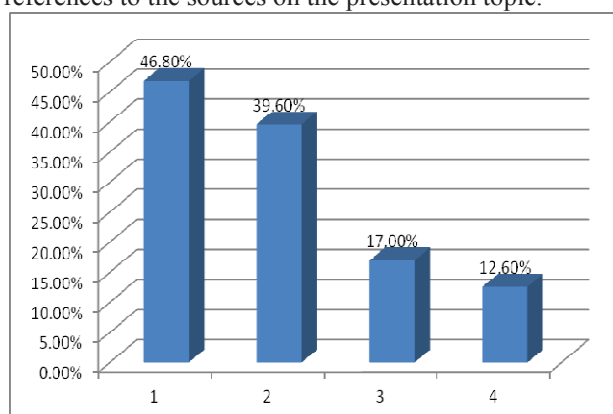
- ▲ *Presentation is given together with partner*
- ▲ *Use of notes with key ideas during presentation*
- ▲ *Teacher's information about proper preparation of presentation*
- ▲ *Long time for preparation*
- ▲ *Discussion of presentation-related questions with teacher*
- ▲ *Multiple rehearsal of the presentation*
- ▲ *Preliminary presentation to few acquaintances*

Figure 4. Ways to overcome the difficulties encountered in preparation and presentation in English

Figure 4 shows that more than half (55,8%) of students give the highest point to the answer that work together with partner improves quality of the presentation. Also more than half of respondents (51,9% and 50,8%) name the use of notes with key ideas and teacher's information about proper preparation of presentation as the most suitable ways to deal with difficulties. 34 % of respondents give the highest point to the answer that longer time for preparation of presentation would enable to make better presentation.

32,1% of respondents think that discussion of the presentation with the teacher is a very important way to overcome the difficulties. 25% of students give the highest point to multiple rehearsal of presentation, and 14,7% - to preliminary presentation to the acquaintance.

Only 55 students indicated their requests in answering the question about the desired help from the teacher in preparation of presentation. All the received answers form four groups of the desired help. Figure 5 shows that definite and detailed formulation of requirements for the task accomplishment is the most important for 46,4% of respondents, teacher's consultations and help in the period of presentation preparation – for 39,6% of students, examples of well-made presentations are desired by 17% of students, and 12,6% of respondents want to get more information or references to the sources on the presentation topic.



1. *Definite and detailed formulation of requirements for the task accomplishment*
2. *Teacher's consultations and help in the period of presentation preparation*
3. *Examples of well-made presentations*
4. *More information or references to the sources on the presentation topic*

Figure 5. Teacher's help in preparation of presentation

Discussion of results

Study of students' experience in organizing presentations in English aimed to reveal students' opinion about the necessity of oral presentations, the difficulties encountered and the methods to tackle these problems. Analysis of students' experience in organizing oral presentations in English is likely to stimulate the application of advanced methods of presentation preparation.

First of all students were asked to share their opinion about the benefit of oral presentation in English. Interestingly, development of communication skills seemed to be the greatest benefit of oral presentation in English for majority of respondents, while development of the English language skills was in the second positions. Research has proved the improvement of communication skills through the experience of oral presentation (Richard & Rogers, 2001; Hadley, 2001). On the one hand, these results could mean sufficiently good level of the English language, which enables students to envisage other benefits of the presentation. Nevertheless,

participants of this study put the improvement of the English language skills to the second place, so mastering of the language remains relevant.

To answer the question about the difficulties faced in the process of presentation preparation over one third of students named the pre-stress and fear of confusion and failure to speak clearly. This problem is closely related to the fear of public speaking, which is named as the greatest difficulty encountered during the presentation by one-fifth of students. It is not surprising that fear of audience or public speaking is named in this study as one of the greatest difficulties encountered by students – this is consistent with the Lithuanian (Susnienė, Virbickaitė, Purvinis, 2010) and foreign (Gault, 2009;) research findings. Results of this work encourage to note the fact that students feel apprehensive about speaking in front of audience and this difficulty is the most pronounced in the course of preparation for presentation. This shows the importance of creation of favourable psychological climate in the class, which reduces the stress and tension experienced by students in preparation for presentation. Fear of audience is a psychological problem that could be tackled by creation of favourable psychological environment, gradual involvement of students into group games (Godev, 2003), employment of visualization of the desired result (Gault, 2009).

During oral presentation fear of speaking in the foreign language was actual to one-fifth of respondents. Many people have the fear of speaking in the foreign language, which can be released through various strategies and preparation – as proved in the analysis of successful experience of presentation preparation in native and foreign language, conducted by N. Morita (2000). Again, these results draw attention to creation of favourable psychological environment in the class encouraging the discussion of the difficulties faced. Repetition of training material, rehearsals of presentation and linguistic games support development of language skills (Godev, 2003).

Need for favourable psychological environment is also indicated by the method to deal with difficulties emphasised by students – preparation of presentation together with partner. Educators recommend peer involvement into preparation of oral presentation as this helps to unite the group, to increase interest in the presentation itself, to acquire responsibility for the process of learning (Wenden, 2002; Otschi, Heffernan, 2008).

Analysis of students' opinion about possible help from the teacher reveals that students do not have distinct criteria for preparation of oral presentation. This is reflected by suggestions to formulate requirements for the task accomplishment definitely and in detail, to give examples of well-made presentations. Foreign authors (Godev, 2003; Otschi, Heffernan, 2008) consider clear formulation of the task and presentation of assessment criteria a necessary condition of successful oral presentation.

This study emphasises the importance of favourable psychological environment in the English language classes and the necessity of definite and detailed requirements for presentation preparation.

Conclusions

1. Development of speaking and communication skills is named by students to be the greatest advantage of oral presentation in the English language.
2. Pre-stress and fear of nervousness and failure to speak fluently are named by students to be major problems in preparation for presentation in English.

3. Fear of public speaking in group and fear to speak in foreign language are the greatest difficulties encountered by students when making presentation in English.
4. Preparation of the presentation together with partner is the best way to overcome the difficulties of oral presentation in English.

The most important teacher's help to students in preparation of oral presentation in English is definite and detailed requirements for the task accomplishment.

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DEVELOPING PRESENTATION MAKING SKILLS IN THE PRACTICAL ENGLISH LANGUAGE CLASS

Summary

An intensive pace of modern society requires the specialists in various fields to have the ability of quick, clear and effective provision of information. Advanced technologies facilitate use of various audio and visual aids, therefore in higher education institutions young people are taught to create public information reports individually and to present them to the audience. Development of technologies makes the information easily accessible and communicable by attractive and easily perceptible methods, however, the human factor related problems are not as easy to overcome. The English language has become the prerequisite of international communication, use of this language in preparation and giving of information reports complicates organization of presentations as students do not always master this language well enough. Oral presentation provides the opportunity to learn the use of rhetorical tools according to the situation, it is the creativity promoting process and the opportunity for development of student's language skills. When preparing oral presentations on the topic that is close to them, students get engaged and involve their peers into the process of learning. The increasing attention is focused on skills of oral presentation preparation in the English language as this develops communication skills and is particularly important for students in business study programs. However, teachers still lack knowledge how to facilitate the process of organizing presentation. Preparation of oral presentation should be started from giving clear requirements of the task performance. This includes clear formulation of the topic, sources of information search, audience support, observation of the preparation process, organization and conveyance of speech, and evaluation. Creation of favourable psychological environment should receive serious attention. In the process of learning students are supposed to make presentations and this scares them a lot. In such cases help is available through structured activity: self-confidence exercises and, experience development. Peer involvement into the assessment of oral presentation is increasingly popular in the educational environment. In this way the assessing students are actively involved into teaching activity, develop their language and communication skills while the presenter hears other non-teacher approach to his/her work and, through mutual communication with peers, reaches a higher level of learning. The teachers seeking to improve students' oral presentation skills should present the evaluation criteria clearly: use of language, content, presentation and visual aids. When other students are involved into the evaluation, the assessment criteria should be discussed in advance, not on the day of the oral presentation, so that possible uncertainties could be taken up.

Analysis of skills development in oral presentation preparation in the English language, which was carried out at Aleksandras Stulginskis University, surveyed the opinion of the second-third year students from various faculties. The investigation focused on the 2nd-3rd year students, who encountered the experience of preparation of oral presentations in previous years; therefore it was important to know their opinion about this experience. The respondents were given the methodology, consisting of 9 questions developed by the author of this paper. Study of students' experience in organizing presentations in English aimed to reveal students' opinion about the necessity of oral presentations, the difficulties encountered and the methods to tackle these problems. Analysis of students' experience in organizing oral presentations in English is likely to stimulate the application of advanced methods of presentation preparation.

All students were asked to share their opinion about the benefit of oral presentation in English. Interestingly, development of communication skills seemed to be the greatest benefit of oral presentation in English for majority of respondents, while development of the English language skills was in the second positions. On the one hand, these results could mean sufficiently good level of the English language, which enables students to envisage other benefits of the presentation. Participants of this study put the improvement of the English language skills to the second place, so mastering of the language remains relevant. To answer the question about the difficulties faced in the process of presentation preparation over one third of students named the pre-stress and fear of confusion and failure to speak clearly. This problem is closely related to the fear of public speaking, which is named as the greatest difficulty encountered during the presentation by one-fifth of students. Results of this work encourage to note the fact that students feel

apprehensive about speaking in front of audience and this difficulty is the most pronounced in the course of preparation for presentation. This shows the importance of creation of favourable psychological climate in the class, which reduces the stress and tension experienced by students in preparation for presentation. Fear of audience is a psychological problem that could be tackled by creation of favourable psychological environment, gradual involvement of students into group games, employment of visualization of the desired result. During oral presentation fear of speaking in the foreign language was actual to one-fifth of respondents. Many people have the fear of speaking in the foreign language. These results draw attention to creation of favourable psychological environment in the class encouraging the discussion of the difficulties faced. Repetition of training material, rehearsals of presentation and linguistic games support development of language skills. Need for favourable psychological environment is also indicated by the method to deal with difficulties emphasised by students – preparation of presentation together with partner. Educators recommend peer involvement into preparation of oral presentation as this helps to unite the group, to increase interest in the presentation itself, to acquire responsibility for the process of learning. Analysis of students' opinion about possible help from the teacher reveals that students do not have distinct criteria for preparation of oral presentation. This is reflected by suggestions to formulate requirements for the task accomplishment definitely and in detail, to give examples of well-made presentations. This study emphasises the importance of favourable psychological environment in the English language classes and the necessity of definite and detailed requirements for presentation preparation.

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THE DEVELOPMENT OF STUDENTS' INTERCULTURAL COMMUNICATIVE COMPETENCE THROUGH BUSINESS ENGLISH

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Abstract

The present research aims to determine factors and strategies that will help to create a supportive environment for improving Business English (BE) fluency and developing intercultural skills.

The findings show that communicative problem based learning in multicultural teams appears to be an efficient method of developing not only BE fluency but also intercultural skills because it provides ample opportunities for students' active participation in the learning activities and creates favourable and supportive environment to develop students' cultural sensitivities. For this reason the students' attitude towards representatives of various cultures changes from ethnic diversity to humanistic view. BE fluency has been assessed taking into consideration students' overall lexical complexity (phrases, structures, heightened emotions) of simulation as well as the following categories of discourse: problem management, framing and sequencing the activity to solve it appropriately.

Keywords: problem based learning, multicultural teams, intercultural skills, BE fluency, cultural sensitivities, ethnic diversity, humanistic view.

JEL Classification: I20, I21.

Introduction

The main goal of education has remained almost unchanged since the formation of human communities, e. g. to transmit the knowledge, skills and values for the individuals of the respective society. However, the ongoing processes of globalization urge mankind to find new models of education, in the tertiary sectors of learning included that will guarantee conditions enabling future specialists to acquire key competences necessary to function as professionals in a multicultural environment.

Common European Framework of References for Languages [1] outlines eight key competences that might have a direct impact on graduates' employment and sustainability. They are as follows:

- Communication in the mother tongue.
- Communication in foreign languages.
- Mathematical competence and basic competences in science and technology.
- Digital competence.
- Learning to learn.
- Social and civic competences.
- Sense of initiative and entrepreneurship.
- Cultural awareness and expression.

No doubt, raising cultural awareness becomes of utmost importance especially nowadays because of growing student mobility. Consequently, more and more learners of different mother tongues and cultures enter the universities. For this reason students and lecturers have to be prepared for communicating successfully with young people of diverse backgrounds. This is a big challenge for academic community, because students of various

nationalities have different ethnic traditions, body language, clothing style, material and spiritual values, beliefs, motivation to learn, learning habits and abilities. Therefore, to foster relations based on tolerance, enjoyment, and equality among all the learners in the class is a necessary condition for successful teaching/learning throughout the students' stay in the universities.

At present the number of full-time students from Africa and Asia as well as of Erasmus and of other joint programmes has greatly increased at Aleksandras Stulginskis University (ASU). Undoubtedly, the lack of intercultural skills among students could seriously impede psychological climate at the university. Unfortunately, the existing number of credits for respective programs is a constraint for students to sign up for additional courses on soft skills development. Therefore, the lecturers of the English language included have to embed the development of intercultural skills in the teaching/learning activities across the curriculum of the subject matter [Klimovienė, Statkevičienė, Barzdžiukienė, 2012]. Because no comprehensive studies concerning intercultural skill development during the English language classes have been carried out in higher education institutions of Lithuania at present, the authors of this paper decided to fill in this gap.

The aim of this research is to determine the factors and conditions that will help to create a positive and supportive learning environment for improving BE fluency and developing intercultural competence.

The research attempts to solve the following **objectives**:

- to define the concept of intercultural competence and reveal its main features;
- to investigate the relationship among intercultural, communicative and linguistic competences;
- to analyse students' perception of intercultural competence at the beginning and after the course;
- to find ways of making learning attractive and useful both for improving students' BE fluency as well as developing their intercultural skills.

The research methodology is based on the organizational model of intercultural communication proposed by James R. Chamberlain [2003]. The authors of this study advocate the humanistic approach focusing on values of democracy and considering that the goal of language education is to prepare a young person for living and surviving in a democratic, international society.

The research methods comprise:

- overview of theoretical literature on the intercultural dimension of foreign language teaching and learning;
- analysis of the questionnaire (students' responses on intercultural competence before and after the course);
- observation during discussions, presentations, various team work activities and microteaching.

Theoretical Background of Research Methodology

Most recent European language policy documents (e. g. Common European Framework of Reference for Languages: Learning, teaching, assessment, 2001; A New Framework Strategy for Multilingualism, EC Commission Communication, 2005; Recommendations of the European Parliament and of the Council, 2005; the UNESCO Education in a Multilingual World, 2003) emphasise the importance of an intercultural education.

The EU policies have been further developed by the relative legislative bodies of the member-states with regard to the regional and national peculiarities. The State Strategy for Education in 2003 – 2012, adopted in Lithuania indicates that one of the main objectives in present situation is to provide quality modern education compatible with the needs of an individual's personal and professional appropriateness for functioning in the multinational European space. Thus teachers are encouraged to develop their students' intercultural communicative competence to help them gain the required confidence for the interactions with the speakers in the new community and environment. No doubt, intercultural education is of vital importance even in tertiary – level education, because "hostility is created by ignorance of other cultures and the failure to recognise their existence" (Jandt, 2004, p. 451).

Before going deeper in the studies of intercultural education we have to clarify what the term competence means. It is understood as "a combination of knowledge, skills and attitudes appropriate to a particular situation" (Recommendation of the European Parliament and of the Council, 2005, p. 3). It means that a competence implies personal abilities that we rely on to complete a task in a particular context, e. g. to participate constructively in various processes of society. For this reason the concept of intercultural competence has been defined in different

ways, taking into account what knowledge, skills, attitudes, and values were considered to be its key elements. Consequently, there are so many definitions of intercultural competence. Let's look over some of them.

Byram (2005) stresses values as an essential component of intercultural competence. Abdallah-Preteceille (2001, p. 137) focuses on discourse analysis and claims that students are interculturally competent when they can use their culture and that of their interlocutors in order to communicate.

Some authors state that intercultural competence is the competence of activity in the situations of cultural intersections (Kurc, 1999; Leen, 2002), and reflection of one's own cultural identity (Lange, 2002).

It should be noted that many scientists value intercultural competence from the position of their scientific field. According to Kleppin (2005), intercultural competence is recognition of differences between one's own and other cultures, emotional and cognitive maintenance of differences (tolerance of ambiguities), sensitive acceptance of differences (empathy), development of strategies for avoidance of conflicts. Köbernic (1997) states that intercultural competence is openness to other nations, perception of other individual's mentality, readiness to adapt to another social cultural conditions. Baumer (1991) supplements components of this concept with achievement motivation, metacommunicative competence and polycentrism.

Many researchers (Byram, 1997; Dervin, 2006; Dervin and Dirba, 2006) claim that in order to "equip individuals to participate in an effective and constructive way in social and working life", factors such as knowledge of oneself or awareness of one's own identity should be taken into consideration. According to Bauman (2000), in our contemporary world, nothing is fixed but liquid – especially selves and identities. Undoubtedly, the resulting plurality leads individuals to concentrate not only on differences but also on similarities between people in order to be successful in intercultural dialogue.

The authors of this study acknowledge that intercultural competence refers to all forms of interaction between people of different backgrounds, realising that everybody is multicultural (sex, age, religion, status in society, etc.), and respecting diversity of people as well as inner diversity and complexity in each individual. It means that intercultural competence includes intellectual, social, emotional and mediating aspects of personality and is achieved in continuous development of one's own potential.

No doubt, language plays the key role in intercultural communication. Therefore, it would be strange to separate language learning from culture. However, a lot of language teachers look upon culture as a part of linguistic experience, i. e. they consider it an additional or accidental factor. Meanwhile, the cultural proponents who are interested in general intercultural communication fail to understand how communication penetrates into the certain language. Besides, they often ignore the intercultural domain, i. e. differences and dynamic tension between the native and foreign languages. This results in different knowledge to be acquired, and different skills to be developed as well as

different methods to be applied. However, those working in this field quickly realise the need of holistic methods, because the preparation of a student for intercultural communication requires the methods that relate the increasing knowledge of language with appropriate abilities which are needed to face challenges of intercultural communication.

These reflections let us claim that foreign language teaching/learning should encompass the fields of intercultural, communicative and linguistic competences. Therefore, we consider Chamberlain's (2003) organizational model of intercultural communication the most appropriate for our research (Figure 1). Thus it needs a deeper analysis.

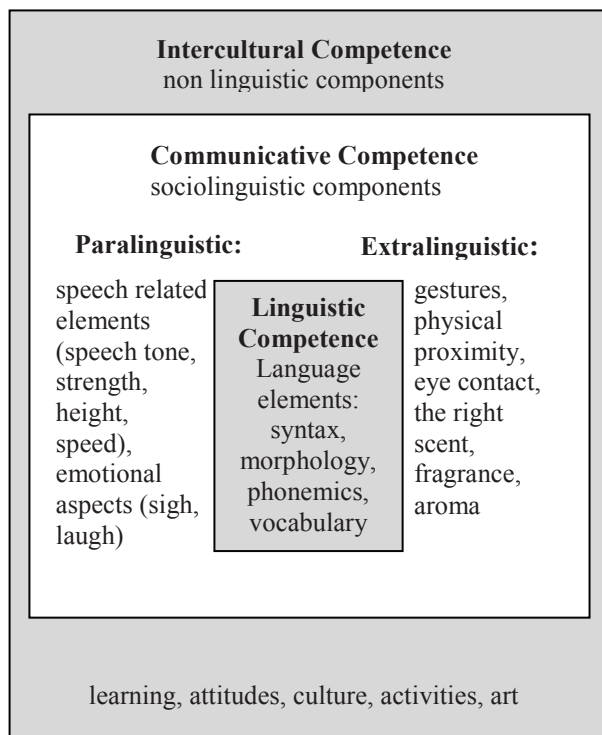


Figure 1. Organizational model of intercultural communication according to Chamberlain (2003)

According to Chamberlain (ibid) intercultural competence comprises non-linguistic components such as learning, attitudes, culture, activities, art. Whereas, communicative competence consists of paralinguistic and extralinguistic components.

Paralinguistic signs are the speech related elements (speech tone, strength, height, speed) as well as emotional aspects (sigh, laugh, acceptance of compliments, even duration of talk). These aspects are very important in the intercultural society as they are valued differently or have a different meaning in every language.

Extralinguistic elements are not related to the language. They indicate the meaning or reveal the feeling. These language features are important measures to indicate the meaning: gestures, eye contact, touch, physical proximity, use of time, even the right scent, fragrance or aroma. If these measures are not appropriate in certain intercultural situations, tension is likely to lead

to hostility. Thus, these elements help to understand speaker's intentions. Therefore, it is necessary to learn extralinguistic and paralinguistic speech elements (communicative competence) and to use them in parallel with the vocabulary and grammar of the language that is being learned (linguistic competence).

Research Methodology

The authors have carried out the research at Aleksandras Stulginskis University from September 2012 to January 2013. The target students were 37 second year learners of the Faculty of Economics and Management who had Business English (BE) as compulsory subject. Every group was subdivided in 4 teams that had permanent membership throughout the BE course. The students had 3 hours a week and stayed together as groups for 4 months.

The first stage of the research. It has to clarify how the students understand intercultural competence. For this reason they were invited to answer the question "How would you define intercultural competence?" before and after the BE course. These results are reflected in Table 1.

Table 1
Understanding of intercultural competence in the students' responses before and after the course (number of students)

| Statements characterising intercultural competence | Before the course | After the course |
|--|-------------------|------------------|
| Knowledge of different aspects of target cultures such as traditional food, leisure, festivals, clothes, music, traditions, habits, values | 37 | 25 |
| Knowledge of special features of the target culture | 24 | 16 |
| Ability to interact / communicate with people from different cultures | 10 | 20 |
| Cooperation skills | 9 | 30 |
| Interpersonal communication skills | 9 | 27 |
| Ability to collaborate taking into account diversity of age, gender, nationality, values, beliefs, social status | 5 | 19 |
| Constructive solution of conflicts | 4 | 28 |
| Acceptance of other views | 2 | 32 |
| Developing the ability to express one's own cultural standpoint | 8 | 15 |
| Reflecting on cultural similarities/differences | 4 | 24 |
| Developing critical thinking about cultural stereotypes | 4 | 20 |
| Developing tolerance, empathy towards different cultures | 7 | 34 |

The analysis of the respondents' answers showed that before the course the intercultural dimension of foreign language education was understood basically as learning about food, clothes, festivals, traditions, habits. The students' answers demonstrated that multiculturalism was overlooked or narrowed to ethnic diversity. Besides, the responses testified to the fact that the majority of

students' had not realised that tolerance, respect, empathy, constructive solutions of conflicts were important in encounters among individuals of various cultures. It means that many students have not adopted the humanistic view of intercultural competence. This fact was taken into account while organising classroom activities.

The second stage of the research. We tried to find efficient ways of making learning attractive both for improving students' language fluency and developing their intercultural skills. To solve this problem the following steps were made:

Step 1: To choose an appropriate way of communication that would appeal and suit the students to stimulate their motivation for learning. For ex., while marketing the BE course we used "unprofessional" words or statements like "what to do and what not to do in a foreign country on a business trip" instead of saying this course will help you "raise cultural awareness".

Step 2: To apply the right method of learning. The authors widely used team learning based on problem solving and cooperative partnership between at least one non-native and 2 or 3 native learners as one team working together in the BE class. The problem-based team learning has benefitted greatly in developing various necessary competences for daily work and career. First of all, students' learning skills improved due to the fact that the teacher's role was minimised. Students' motivation was raised by increasing their confidence, encouraging them to become part of a team. Besides, team learning contributed to the development of linguistic competence because learners were given more frequent opportunities to express their ideas, to develop comments, and arguments. Furthermore, students were given a chance to develop their socio-linguistic competence because they could immediately receive feedback from their team members. No doubt, it reduced their anxiety in obtaining information from others, brainstorming and organising ideas, exchanging them more effectively.

Step 3: To design the curriculum appropriately, and on the basis of problem-based communicative approach to work out learning situations and develop learning strategies, keeping in mind the crosscultural differences of the guest students. The curriculum consisted of carefully selected and designed problems that demanded from learners acquisition of critical thinking, problem solving proficiency, self-directed learning strategies and team participation skills. Students had a chance to analyse critically national stereotypes and adopt various points of view, to compare the native and other cultures, to gather knowledge concerning cultural phenomena by means of various methods and from different sources, to analyse and draw conclusions by themselves.

Step 4: To involve students into various creative activities such as: round-table discussions, professional games based on presentations, meetings, negotiations, email communication. In terms of activity design the following guidelines have been followed:

- team assignment deadlines have been set up within a four – week framework;

- the vocabulary necessary for a preselected set of topics for discussions, professional games has been provided and mastered within the class;
- the preparation for team work has started with appropriate amount of in-class interaction, i. e., possible situations and interactions have been previewed, similar activities have been simulated and practised. The students were reminded how it is important to avoid making a categorical statement which is not often accepted by the native speakers of English. They became aware of hedging phenomenon and mastered some hedging devices that helped them organise ideas in a culturally appropriate manner.

The above mentioned activities developed students' awareness of various cultures, stimulated their intellectual curiosity and developed empathy and tolerance towards representatives of other cultures.

Step 5: To maximise student participation in an informal setting by organising international events. One of them was "Languages unite various cultures". This event was aimed at familiarising students with the culture of the local and guest countries, helping them compare similarities and differences among the countries to arrive at a better understanding of the rich heritage of each of them. Such social events create the environment of acceptance, harmony and unity within the university and provide excellent opportunities to bring the multicultural background into the target language teaching.

Results and Discussion

The research done shows that communicative problem based learning in multicultural teams creates a positive and stimulating environment for developing intercultural skills. The students' responses after the BE course (Table 1) prove that. The majority has realised that tolerance, respect, empathy as well as constructive solution of conflicts are important while dealing with representatives of various cultures. These answers let us claim that students developed cultural sensitivities because their attitude towards representatives of various cultures has changed from ethnic diversity to humanistic view. We think that students' attitude towards the others has changed because during discussions they were encouraged to reflect on cultural similarities and differences existing between various cultures. No doubt, ability to stress things in common and grasp their differences while accepting and valuing them appears to be one of the key issues in developing one's cultural awareness. Most students (92 %) asserted that learning in multicultural teams was beneficial because they received support and understanding from their teammates. Consequently, it led to mutual understanding and greater tolerance to other cultures.

To assess students' BE fluency we decided to take into consideration their overall lexical complexity (phrases, structures, strengthened emotions) of simulation discourse as well as the following categories: problem management, framing and sequencing the activity to solve it appropriately. Each category was assessed by a numeric score from 1 to 3, where a score of 1 represents

no evidence of fluency, 2 demonstrates adequate skills in fluency, 3 represents competence of fluency.

The present study let us claim that professional games, discussions based on problem solving activities through team work have positively resulted in students' BE fluency. It is demonstrated by the comparative characteristics of the verbal assessment before the term ($K\alpha$) and after the end of the term ($K\alpha$), as illustrated in Table 2.

To background the efficiency of problem solving activities through team work on language fluency, Russell's (1974) system of qualifying criteria was used: learning efficiency (1), individual efficiency index (2).

$$E = K\alpha - K\alpha \quad (1)$$

$$IEI = \frac{K\alpha - K\alpha}{1 - K\alpha} \quad (2)$$

The results are shown in Table 2.

Table 2

Learning Efficiency of Groups

| | $K\alpha$ | $K\alpha$ | E | IEI |
|--------------------------|-----------|-----------|-------|-------|
| Group 1 (19 students) | 0,625 | 0,822 | 0,197 | 0,525 |
| Group 2 (18 students) | 0,642 | 0,848 | 0,206 | 0,575 |

The data in Table 2 testify that learning efficiency at the end of the term has increased in both groups: in group 1 it was 0,197, in group 2 – 0,206. The results of individual learning efficiency (IEI) have also improved: group 1 reached 0,525, group 2 – 0,575.

A positive influence on students' BE fluency has been achieved because the learners were given ample opportunities not only to participate in various problem based activities but also to receive special training in them. It helped students adapt in quickly changing communicative situations and develop confidence in the instant use of the language generated on the spot. Besides, the above mentioned activities ensured active student participation, because "the teacher only supported the group activities by skillful questioning which strengthened the students' commitment to their roles, modelled the appropriate language register, focused their linguistic efforts and encouraged them to find the answer.

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As a result, it led to genuine communication" (Klimovienė, Statkevičienė, 2010).

Conclusions

The importance of intercultural competence stressed by "the Common European Framework Reference" asks for finding efficient ways of integrating intercultural education into the foreign language curriculum. The present research shows that communicative problem based learning in multicultural teams appears to be an efficient method of developing BE fluency as well as intercultural skills, because students:

- have to use the target language to convey their ideas, emotions, proposals as they cannot communicate in any other way;
- get a chance to appreciate different cultures, opinions, attitudes by reflecting on both cultural similarities and differences existing between various cultures;
- develop more professional view on different issues when dealing with learners belonging to various cultures, different beliefs, customs, habits, social values, ways of behaviour, ideals, specific developmental background;
- are offered tasks and activities that practise the target skills areas (discussions, meetings, negotiations, presentations) and provide insights into typical business situations, behaviours and procedures;
- get ample opportunities to communicate as the teacher only supports the group activities by skillful questioning and by providing positive and supportive environment for learners. It enables the students feel comfortable while participating in classroom activities. Only relieved anxiety will let them learn a lot from each other, help each other, and develop tolerance to each other.

Such learning has resulted in a number of benefits. Students not only maximised their learning experience and outcomes but also improved their communication and interpersonal skills. Besides, personal experience of working in international teams developed students' professional outlook and insight as well as their personal appropriateness for functioning in the multinational space.

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Giedrė Klimovienė, Nijolė Račkauskaitė

THE DEVELOPMENT OF STUDENTS' INTERCULTURAL COMMUNICATIVE COMPETENCE THROUGH BUSINESS ENGLISH

Summary

At present students of diverse nationalities tend to choose and learn at the national universities of Lithuania. These students have different social and spiritual values, ways of behaviour, ideals, lifestyle, beliefs, motivation to learn, previous learning habits and abilities. Therefore, the more changeable the environment is for them, the more important is the responsibility of the teacher to help them adjust to a new cultural environment. Otherwise, a student can experience a culture shock. And it may result in his/her emotional anxiety, irritation, annoyance, fear to speak up and to be mistaken. Therefore, intercultural education across subject disciplines, foreign language included, becomes of utmost importance in universities. Because no comprehensive studies concerning intercultural skill development during the English language classes have been carried out in higher education institutions of Lithuania at present, the authors of this paper decided to fill in this gap.

The aim of this research is to determine the factors and conditions that will help to create a positive and supportive learning environment for improving BE fluency and developing intercultural competence.

The research attempts to solve the following **objectives**:

- to define the concept of intercultural competence and reveal its main features;
- to investigate the relationship among intercultural, communicative and linguistic competences;
- to analyse students' perception of intercultural competence at the beginning and after the course;
- to find ways of making learning attractive and useful both for improving students' BE fluency as well as developing their intercultural skills.

The research methods comprise:

- overview of theoretical literature on the intercultural dimension of foreign language teaching and learning;
- analysis of the questionnaire (students' responses on intercultural competence before and after the course);
- observation during discussions, presentations, various team work activities and microteaching.

The methodological basis of the research is the concept of unity and mutual complementary interaction of education and culture treating culture as the most important condition of personal development and improvement of educational process (Gershunsky, 1998). Chamberlain's (2003) organizational model appeared to be the most appropriate for the study, because it comprises intercultural, communicative and linguistic competences.

At the beginning of the research we tried to clarify how the students understood intercultural competence.

The analysis of the 37 respondents' answers showed that before the course the intercultural dimension of foreign language education was understood basically as learning about food, clothes, festivals, traditions, habits. The students' answers demonstrated that multiculturalism was overlooked or narrowed to ethnic diversity. Besides, the responses testified to the fact that the majority of students had not realised that tolerance, respect, empathy, constructive solutions of conflicts was important in encounters among individuals of various cultures.

The students' answers demonstrated that multiculturalism was narrowed to ethnic diversity. It means that many students have not adopted the humanistic view on intercultural competence. Therefore, we tried to find efficient ways of making learning attractive both for improving students' language fluency and developing their intercultural skills. To solve this problem the following steps were made:

- to choose an appropriate way of communication that would appeal and suit the students to stimulate their motivation for learning;
- to apply the right method of learning. Team work based on problem solving and cooperative partnership of local and guest students as one team in the BE class seemed most promising;
- to design the curriculum appropriately, and on the basis of problem-based communicative approach to work out situations and develop learning strategies, keeping in mind the crosscultural differences of the students;
- to involve students into various creative activities such as: round-table discussions, professional games based on presentations, meetings, negotiations, email communication;
- to maximise student participation in an informal setting by organising international events.

The teacher's input was very big to prepare students for classroom activities. First of all, team assignment deadlines have been set up, the specialist vocabulary necessary for chosen problems have been provided, possible situations and interactions have been previewed, similar activities have been simulated and practised.

Most students (92%) asserted that the above mentioned activities helped them become aware of the complexities of the target culture as well as be conscious of their own cultural identity as intercultural mediators. It led to the development of cultural sensitivities. For this reason the students' attitude towards representatives of various cultures have changed from ethnic diversity to humanistic view. Consequently, they became more open and tolerant to each other. Besides, the students assumed increasing responsibility for their learning, giving them more motivation and more positive emotions of accomplishment. It had a positive influence on their language fluency. Most of the students reached speaking proficiency level above grade 8. It let us claim that team work based on problem solving activities contributes to the development of language fluency and intercultural skills.

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E-MONEY AND ELECTRONIC PAYMENTS AS A WAY OF REDUCING THE SHADOW ECONOMY

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Abstract

In this paper the main focus lies on the shadow economy and non-cash payments. The aim of the article is point out the relationship between electronic solutions in payments and the level of the shadow economy in Poland. The implementation of the recommendations in this report should contribute to a reduction in the size of the shadow economy. The data basis of the analysis is Polish and European macro statistics on the payment market and the survey of consumers' payment behaviour in Poland.

Keywords: shadow economy, electronic payments, non-cash payments.

JEL Classification: E50, G20, G28.

Introduction

The economic slow-down resulting from the financial crisis is reflected in the growth of the shadow economy. One of its effects is a decrease in the national revenue, which indirectly may lead to the increased likelihood of a budget deficit.

The determinant that is favourable to the shadow economy is the use of cash in trading. It is facilitated by the convenience of its use and the difficulty of tracking transactions paid in this way. They stand in contrast to electronic payments, which document transactions and thus make activity in the shadow economy difficult. According to a 2008 study the size of the shadow economy in that year would have been greater by 23 billion euro, ie. equal to 30% of the official Polish GDP if electronic payments had not developed in the years of 2004 – 2008 (ATKearney, 2010).

Since the 1990's Poland has seen the dynamic development of information technologies, conducive to the electronic economy. The quantitative indices for assessment of the electronic economy have grown year after year. It should be pointed out that for the last few years there has been a significant quality change in the content and functionality of e-services, system solutions and service platforms, spreading standards of reliability and internet safety as well as adapting legal regulations to the requirements of participants of e-transactions – companies and information society.

They are the result of the gradual awareness and necessity to use electronic systems, updated legal regulations and numerous initiatives and projects both in Poland and in EU countries, promoting the e-economy. The further successful development of e-money and the electronic economy will depend on the new innovative mobile payment systems, digitization of financial services and the appearance of a digital money service. The aim of

the article is point out the relationship between electronic solutions and the level of the shadow economy in Poland.

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 electronic payments and summarizes personal views and opinions on selected issues in the area of e-money with an emphasis on the size of shadow economy.

Literature review

There are many publication consider e-money and electronic payment and shadow economy, but almost all of them treat them as two separate issues. There is especially quite a large literature on single aspects of the shadow economy exists (Frey, Pommerehne, 1984; Thomas, 1999; Pozo, 1996; Schneider 1994, 1997; Johnson at all 1997; Johnson, at all 1998). For an overall survey of the global evidence of the size of the shadow economy see Schneider and Enste (2000, 2002), Gerxhani (2003), Schneider (2003), Bajada and Schneider (2005) and Schneider (2007a, 2007b).

Some authors underline negative consequences of shadow economy including lost tax revenues, reduced protection for workers, lower productivity and, ultimately slower rates of growth (Choi, Thum, 2004; Fleming at all, 2000; Schneider, Enste, 2000).

On the other hand there are publication prepared by international organization presented the scale and prediction of non-cash payments (Capgemini, 2012; Moody's Analytics, 2013) and papers prepared by central banks emphasis the idea that existing payment systems infrastructure could be improved by changing behaviour to make more use of secure and efficient electronic payment methods leading to a reduction in the reliance on cash and paper instruments (NBP, ECB, FED)

Since the economic crisis has highlighted the scale of the shadow economy, policy makers have been considering measures to recuperate lost revenues. On this basis A.T. Kearney and Friedrich Schneider, provided in 2008 the first study on structure of shadow economy in Europe and identified measures to reduce it. This study based on analysis of the shadow economy within 12 industry sectors in sic countries in Europe. In 2010 this study include more insights into the impact of the global economic crisis on the shadow economy (AT Kearney, 2010). The international organization strongly involved in promoting results of these research is Visa Europe.

Development of payment instruments in Poland

Non-cash payments are regulated in Polish law by Chapter 4 of the Banking Act of 29 August 1997 and the Act of 12 September 2002 on electronic payment instruments. Besides, detailed aspects are included in the regulations concerning such issues as running a business company, the system of social security, fee payments, tax regulations, payment of old-age and disability pensions as well as salaries and wages.

Over the last years, the share of cash payments has steadily been decreasing (NBP, 2009). Cashless payments are particularly popular in Scandinavian countries. In 2008 in Finland, Norway and Sweden, the share of cash payments was below 50% (Liikanen, 2008). Non-cash transactions are still not the dominant retail payment media at all countries. There are countries in which more than 90% consumer payments take place in cash (McKinsey 2009), especially in Central and Eastern Europe.

In the period from 2000 to 2010 there was a sudden increase in the number of non-cash transactions *per capita* in Poland. In 2000 one Pole performed on average 12.85 non-cash transactions, while 10 years later as many as 61.16. In this period definitely the proportion of the use of various payment methods changed.

In spite of one of the most modern clearing systems in the EU that Poland has, the share of particular forms of non-cash payments against a background of the total number of payments in the EU is low (Table 1) (Polasik at all, 2012).

| function | | | | | | |
|-------------------------|--------|-------|-------|------|------|------|
| Cheques | Poland | 0,21 | 0,03 | 0,01 | 0,01 | 0 |
| | UE* | 13,32 | 10,29 | 8,41 | 6,64 | 5,11 |
| E-money | Poland | 0 | 0 | 0 | 0 | 0 |
| | UE* | 0,52 | 0,58 | 0,65 | 1,12 | 1,42 |
| Other non-cash payments | Poland | 0 | 0 | 0 | 0 | 0 |
| | UE* | 0,75 | 0,85 | 0,72 | 0,56 | 0,49 |

According to the data in Table 1 the most popular payment instrument in Poland is the credit transfer, whose significance is decreasing year after year. Payment cards are in second position. Their popularity is growing every year. E-money transactions are still a small share of non-cash payments, yet in EU countries their significance is on the increase (Polasik at all, 2010).

Visible in recent years, the rapid development of information and communication technologies it touches more and more new areas of economic and social activity. Very fast development of mobile, both in terms of number of users, as well as the advancement of technology has meant that the market bidding banks. The same mobile banking has become one of the most innovative distribution channels banking services (Maison, 2010).

The popularity of mobile phones and the results of studies on the preference in the use of mobile banking make use of mobile as a channel to carry out bank transactions appears to have considerable potential. Figure 2 shows the current status and forecast of internet and mobile banking.

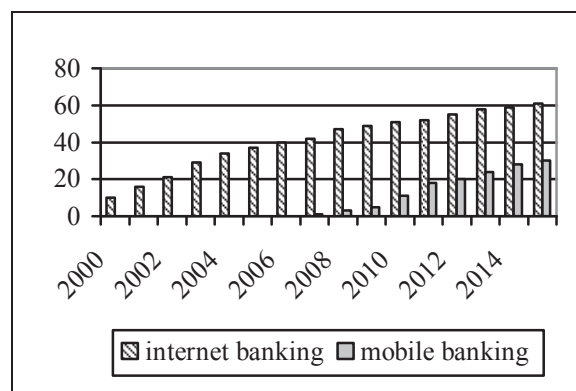


Figure 1. Mobile banking vs internet banking forecast (Mobile Banking Association, 2009)

Mobile banking is present as a distribution channel of banking services until several years. for subsequent years Forecast provides for a gradual slowdown in the dynamics of the growth of online banking users and steady increase in the number of households benefiting from mobile banking.

The idea and size of shadow economy

The shadow economy includes those economic activities and the income derived thereof that circumvent or avoid government regulation or taxation. The major component (about two thirds) is undeclared work, which

Table 1
Relative significance of payment instruments in Poland as compared with other EU countries (ECB, 2012)

| | Payment instrument | 2003 | 2005 | 2007 | 2009 | 2011 |
|-------------------------------|--------------------|-------|-------|-------|-------|-------|
| Credit transfer | Poland | 79,31 | 73,11 | 67,4 | 64,41 | 60,76 |
| | UE* | 28,5 | 29,77 | 28,12 | 27,43 | 27,48 |
| Direct debits | Poland | 0,57 | 10,16 | 10,31 | 10,1 | 0,87 |
| | UE* | 24,74 | 25,08 | 25,85 | 25,83 | 24,47 |
| Payment cards without e-money | Poland | 19,91 | 25,71 | 31,28 | 34,48 | 38,36 |
| | UE* | 32,16 | 33,61 | 36,5 | 38,71 | 41,02 |

refers to the wages that workers and business don't declare to avoid taxes or documentation. The rest is represented by business underreporting profits to avoid tax regulation (Pickhardt M. Sardà J., 2011).

Shadow economy and undeclared work have negative implications which affect macroeconomic objectives as well as quality and productivity at work and social cohesion. From a macroeconomic perspective, they decrease tax revenues (income tax or VAT) and undermine the financing of social security systems. From a microeconomic perspective, undeclared work tends to distort fair competition among firms, paving the way for social dumping inhibiting the creation of regular employment with full social protection. It also causes productive inefficiencies, as informal businesses typically avoid access to formal services and inputs (e.g. credit) and companies do not grow (Szara strefa w Polsce, 2009).

The shadow economy includes all market-based legal production of goods and services that are deliberately concealed from public authorities for the following reasons (Schneider, 2012):

- to avoid payment of income, value added or other taxes,
- to avoid payment of social security contributions,
- to avoid having to meet certain legal labor market standards, such as minimum wages, maximum working hours, safety standards, etc., and
- to avoid complying with certain administrative obligations, such as completing statistical questionnaires or other administrative forms.

There are four main factors that influence the size and scope of the shadow economy in any given location (Kuchciak, 2012):

- savings – there is strong correlation between country's tax rate and the size of its shadow economy,
- perceived shadow economy by the society as normal part of society,
- low risk of detection and low penalties,
- easy to participation – payment in cash is one of the easiest way of creating shadow economy.

Most authors trying to measure the shadow economy still face the difficulty of a precise definition of the shadow economy. According to one commonly used definition it comprises all currently unregistered economic activities that contribute to the officially calculated Gross National Product (Feige, 1994;).

Tanzi, Vito (1999): Uses and abuses of estimates of the underground economy, *The Economic Journal* 109/456, pp.338-340.

Figure 2 shows the shadow economy in European Countries.

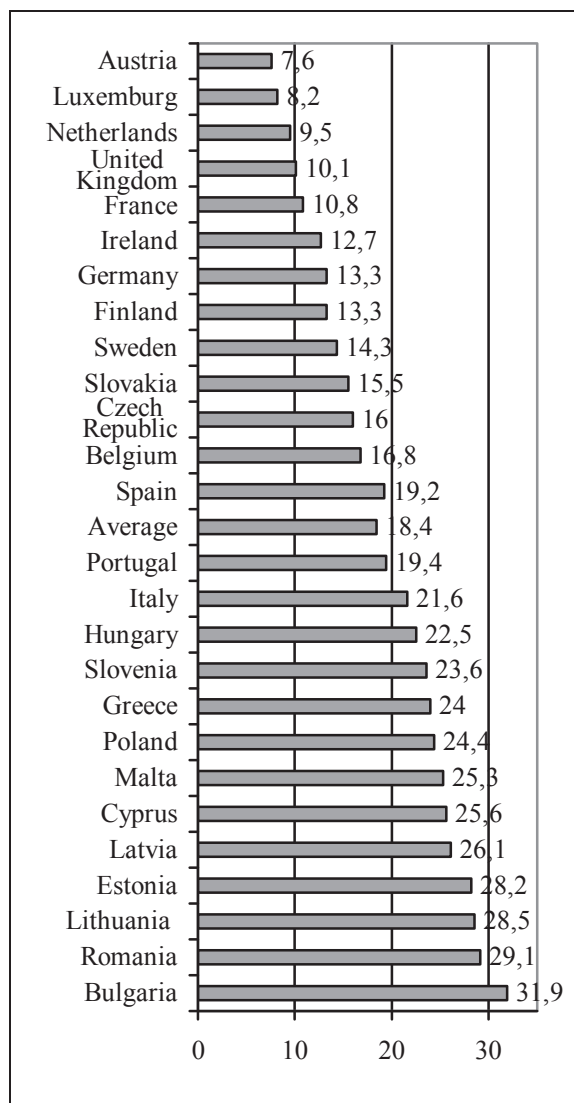


Figure 2. Size of the shadow economy of 31 European Countries in 2012 (in % of off. GDP) (Schneider, 2012)

The results of the average size of the shadow economy of the 27 European Union countries was 18.4% in 2012, while in Poland 24.4%. The fact that undeclared work is not observed or registered, and it may be defined differently in national legislation, makes it difficult to obtain reliable estimates of how widespread it is across European Countries.

The World Bank's research on informal workers suggests a similar picture although the numbers are not directly comparable (the focus is on paid work without legal contract and not so much on undeclared work). Bulgaria, Romania, Lithuania, Estonia, Latvia, Poland are estimated to have the highest levels of shadow economy, with levels ranging from 25% in Poland to 32.3% in Bulgaria. In addition, Cyprus, Greece, Italy, Malta and Portugal also have above average levels of shadow economy, with levels ranging from 19.4% in Portugal to 26% in Cyprus (Hazans, 2011).

The higher level of the shadow economy in Poland is parallel to the lower level of non-cash trading than the European average. As a matter of fact, the exact size of the shadow economy is hard to assess, however, in 2011

its value amounted to approximately 3.2 milliard euro in Europe on the basis of available data. By comparison, Figure 3 shows the share of the shadow economy in Poland at a background of the EU average in the last 7 years.

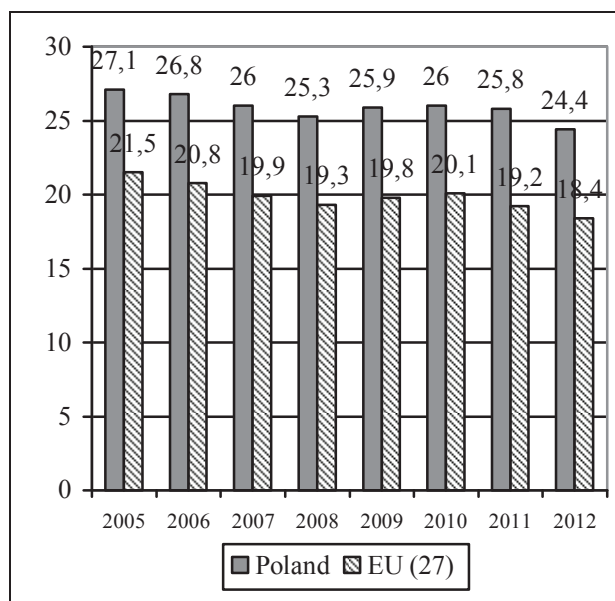


Figure 3. The share of the shadow economy in Poland and the EU average (Schneider, 2010; Schneider 2011, Schneider 2012, AT Kearney, 2011)

Against a background of EU countries the share of the shadow economy in Poland was higher in each year than the European average. What is also observable is a decrease in the shadow economy both in Poland and in the EU.

Relation between shadow economy and non-cash payments

Cash is one of the most important enabler of the shadow economy because of ease of use and difficulty in tracing it. The use of electronic payment systems makes it more difficult to participate in the shadow economy, as it produces documentation of the transactions (Guibourg, Segendorf, 2007).

When we combine the share of the shadow economy and the index of development of the electronic economy, certain relations between these two quantities can be noticed. Figure 4 presents the respective confrontation.

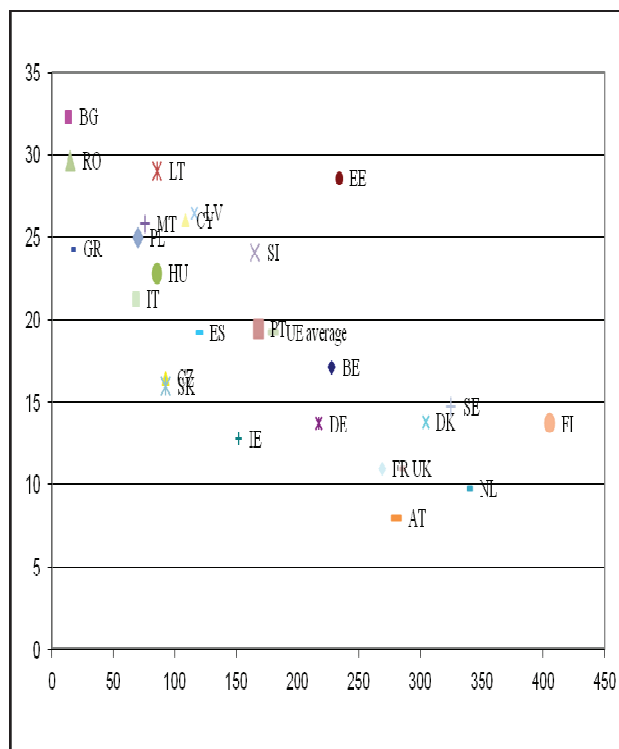


Figure 4. The relationship between the shadow economy share and the number of electronic transactions per person in 2011 (AT Kearney, 2011)

The data shown in Figure 3 testifies to the correlation between the level of development of the electronic economy as measured by the number of electronic transactions and the size of the shadow economy. In the case of Bulgaria, Romania or Greece characterized by the highest share of the shadow economy electronic payments are the least popular. Just the opposite situation can be observed in Great Britain, Finland or the Netherlands, where the small size of the shadow economy is associated with the highest development of the non-cash payment market.

A similarly high relationship was visible in the years before when according to estimates the correlation between the development of electronic payments and the size of the shadow economy was equal to - 0.7 in 2009 and to - 0.77 in 2011. Increasing electronic payments by 10 percent can lead to a decline in the size of the shadow economy by up to 5 percent (AT Kearney, 2011).

Recommendations concerning the electronic economy as a way of reducing the shadow economy

The corroborated relationship between the development of the electronic economy and the size of the shadow economy supports the view that popularization of electronic transactions should be used to reduce the shadow economy. Generally speaking, making electronic payments widespread requires focusing on two areas of activity: limiting banking exclusion and replacing cash with electronic payments.

Over the past few years, the size of financial exclusion has decreased. According to the latest available data, 84% of the EU citizens and only 68% of Polish

citizens have bank account. The popularity of other financial services shows similar disparities. Comparison of the scope of the use of financial products in Poland on the background of the EU represents a figure 5.

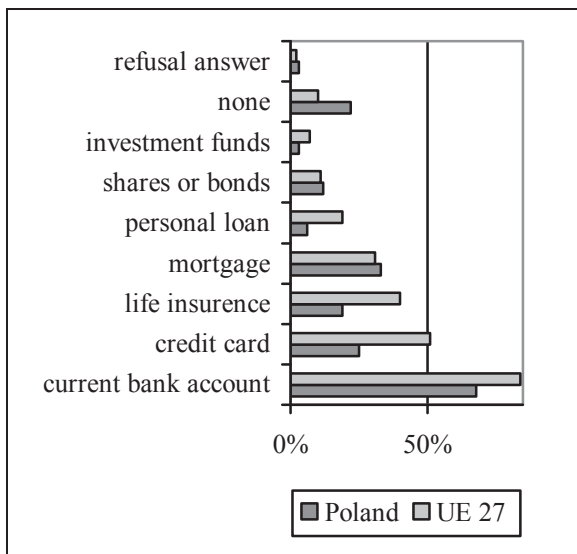


Figure 5. Comparison of the scope of the use of financial products in Poland on the background of the EU (Special Eurobarometer 373, 2012)

There are disparities in the use of financial products in Poland and other EU countries. They are particularly visible in the case of products with the banking sector. Credit cards relies on 19% poles, while the European average is 40%, with 6% mortgage, with an average of 19%, only to see the use of cash loan scale of 12% for Polish and 13% for the EU.

The first step towards promoting electronic payments should be discouragement from using cash. The factor that slows down the development of the e-economy is the easy access to cash, especially through the net of ATMs, by means of which one can withdraw money without an additional charge. Owing to 'the cult of cash' among Poles, so often identified in surveys, action should be taken towards limiting the amount of cash in circulation by persuading people to make deposits in banks and even, on the part of banks, by offering profitable interests on savings accounts and no-charge or low-charge checking and saving bank accounts (Figure 6).

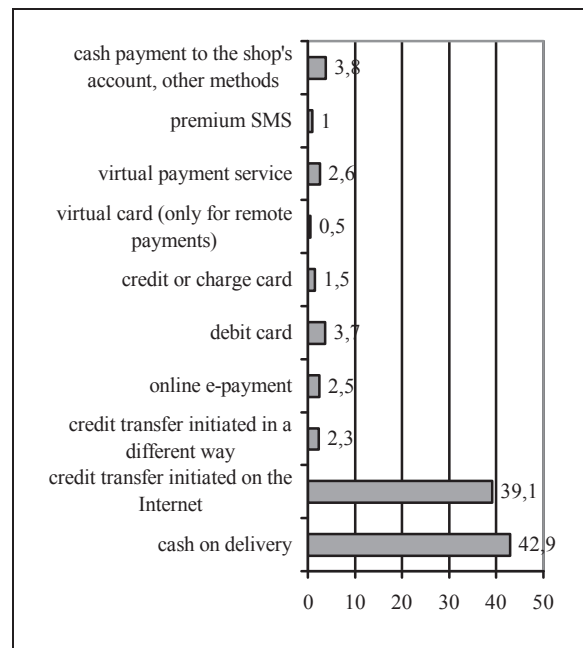


Figure 6. Share of payment methods in total number of purchase payments on the Internet in Poland

The dominant forms of payments, they are: cash on delivery (42.9%) and a credit transfer initiated on the Internet through a bank customer electronic banking service (39.1%). Together, these two payment methods account for 82% of all online purchases in Poland.

The alternative form facilitating payments should be the expansion of the infrastructure accepting payment cards together with promotion of proximity cards. In Poland the key issue slowing down this process was the high costs of acceptance of payment cards. Interchange fees on card non-cash transactions in Poland are generally the highest in Europe, with the exceptions of some types of cards they achieve level of 1,6% while EU average is 0,7%.

An important aspect from the point of view of the evaluation of the payment card market in Poland is not only an analysis of statistical data for previous periods, but also make development forecasts this market. In the context of interchange fees, issues of particular importance to the value of non-cash transactions. Based on the assessment of the value of the time series graphics cashless transactions made in Poland in consecutive quarters in the period from the third quarter of 2003 to the second quarter of the year 2011, you can make a prediction of the phenomenon (Figure 7).

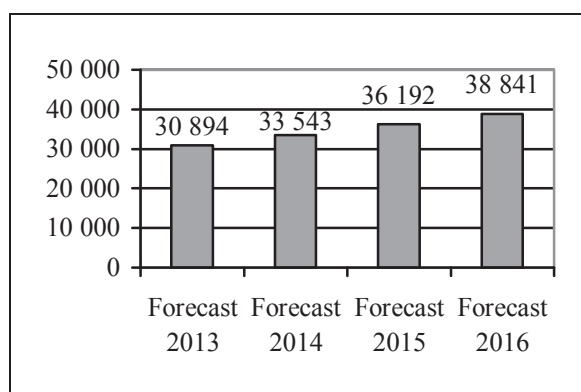


Figure 7. Estimates of the value of non-cash transactions made in Poland (NBP, 2012)

Of these forecasts, it appears that while maintaining the current trend of the development of the phenomenon, the value of non-cash transactions carried out in Poland in the last quarter of 2016, exceed even the 38 billion pln.

Taking into consideration the recommendations included in the latest study of the KNF [Polish Financial Supervision Authority] on the amount of the interchange charge and the growing number of acceptance points in places smaller than 50, 000 inhabitants we should expect the transformation of the interchange charge structure for particular types of acceptant and card payments as well as the adjustment of these charges to the average level in the EU.

In the case of a significant reduction in interchange fees in Poland (to European average), it must be believed that the development of the market of payment cards in Poland will be maintained. We can even expect that this market will grow to physical than before. The number and value of transactions will increase clearly enough that the interchange fee revenue, despite a reduction in its rates, will also be significant.

The last but not least in the area of promotion of the electronic economy is the role played by receivers of payments. The two basic groups are the receivers of mass payments and the government administration. It is necessary that the activities of the former should focus on electronic transfers of payments and their promotion as a form ensuring a higher exaction and punctuality of mass payments. In the case of the government administration the effective approach would be the requirement that all payments should be executed in electronic form. This is the purpose of the activities of the ZUS (Social Insurance Institution) undertaken since 2010 with the intention to persuade old-age and disability pensioners to use bank accounts.

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The development of electronic trading may be one of the ways of spreading bank services. Internet shopping naturally enforces the development of e-money and creates a chance for increasing the transparency of trading.

The survey results revealed that almost half of the Polish society use the world wide web several times a week or more often. However, only some Poles surfing on the Internet (38%) buy goods or services in e-shops and online auctions. On average, one Internet user pays for merchandise online 0.65 times a month. On the other hand, the most active e-shoppers make even a dozen or more Internet purchases a month (Górka, 2012).

The last element contributing to the reduction of the shadow economy through the growth of the electronic economy is education initiatives with a view to broadening the knowledge about non-cash trading, deepening trust in banking services as well as teaching about the impact of the shadow economy on the national economy.

Conclusion

The shadow economy affects the state budget adversely and it is in a position to distort some major indicators like growth and unemployment rates or the real GDP. This entails important policy decisions in the public sector, which produce an immediate impact on the social environment and then backfire to the source. Globally, countries can recover their lost revenues from the shadow economy by concentrating payments into integrated electronic systems which provide opportunities for millions of transactions effected at millions of points all over the world at any point of time.

Correlation appears to exist between the prevalence of electronic payments in a country and its shadow economy. Countries with high levels of electronic payment usage, such as the United Kingdom and the Netherlands, have smaller shadow economies than those with minimal levels of electronic payments, such as Bulgaria and Romania. In Poland the situation on the payments market has become quite hard. Cash circulation is prevalent and at the same time the costs of cards are very high.

The analysis of the prerequisites and indicators of the shadow economy, gives grounds to many experts to believe that a major way to fight it is the broader use of electronic payments and the development of electronic technologies.

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E-MONEY AND ELECTRONIC PAYMENTS AS A WAY OF REDUCING THE SHADOW ECONOMY

Summary

The pace of change in payments globally is accelerating. The proliferation of the internet and mobile phones, the rapid growth of e-commerce, technological developments such as smartphones and near field communication (NFC), are resulting in the emergence of new ways to pay. In parallel to these recent technological changes, there are momentous changes in the payments market in Europe. The payments system, which consists of a legal framework, rules, institutions, and technical mechanisms for the transfer of money, is an integral part of the monetary and financial systems in a smoothly operating market economy.

A country's payment system relies on both cash and non-cash payments. There are important differences in the level of and composition of non-cash payments across developed countries. It is estimated that Poland has a high usage of cash in comparison with other UE countries.

In the period from 2000 to 2010 there was a sudden increase in the number of non-cash transactions *per capita* in Poland. In 2000 one Pole performed on average 12.85 non-cash transactions, while 10 years later as many as 61.16. In this period definitely the proportion of the use of various payment methods changed but still increase in the number of non-cash payments transactions is insufficient.

Cash use has an opportunity to influence on size of shadow economy. Cash is one of the most important enabler of the shadow economy, because it's easy to use and difficult to trace. At an estimated €2.2 trillion, Europe's shadow economy is significant. It ranges from 8 percent of GDP (gross domestic product) in Switzerland and Austria to 24 percent in Poland and more than 30 percent in some Central and Eastern European countries.

Shadow economy and undeclared work have negative implications which affect macroeconomic objectives as well as quality and productivity at work and social cohesion. From a macroeconomic perspective, they decrease tax revenues (income tax or VAT) and undermine the financing of social security systems. From a microeconomic perspective, undeclared work tends to distort fair competition among firms, paving the way for social dumping inhibiting the creation of regular employment with full social protection. It also causes productive inefficiencies, as informal businesses typically avoid access to formal services and inputs (e.g. credit) and companies do not grow.

The analysis of the prerequisites and indicators of the shadow economy shows correlation between cash usage in an economy and the size of that economy's shadow economy. Countries with high levels of electronic payment usage shadow economies than those with minimal levels of electronic payments. Moreover, according to research results increasing electronic payments by 10 percent can lead to a decline in the size of the shadow economy by up to 5 percent. The corroborated relationship between the development of the electronic economy and the size of the shadow economy supports the view that popularization of electronic transactions should be used to reduce the shadow economy.

Governments aren't powerless to recoup revenues lost to shadow economies. Public mandates to increase the use of electronic payments are proven ways to reduce the size and scope of a shadow economy. Banks and payment system companies can do their part by exploring commercially viable uses for electronic payments, identifying opportunities for using prepaid cards instead of cash, encouraging small merchants and public officials to use payment systems, and continuing to improve the systems' technology.

The first step towards promoting electronic payments should be discouragement from using cash. The factor that slows down the development of the e-economy is the easy access to cash, especially through the net of ATMs, by means of which one can withdraw money without an additional charge. Owing to 'the cult of cash' among Poles, so often identified in surveys, action should be taken towards limiting the amount of cash in circulation by persuading people to make deposits in banks and even, on the part of banks, by offering profitable interests on savings accounts and no-charge or low-charge checking and saving bank accounts.

The alternative form facilitating payments should be the expansion of the infrastructure accepting payment cards together with promotion of proximity cards. In Poland the key issue slowing down this process was the high costs of acceptance of payment cards.

The last but not least in the area of promotion of the electronic economy is the role played by receivers of payments. The two basic groups are the receivers of mass payments and the government administration. It is necessary that the activities of the former should focus on electronic transfers of payments and their promotion as a form ensuring a higher exaction and punctuality of mass payments. In the case of the government administration the effective approach would be the requirement that all payments should be executed in electronic form. This is the purpose of the activities of the ZUS (Social Insurance Institution) undertaken since 2010 with the intention to persuade old-age and disability pensioners to use bank accounts.

The development of electronic trading may be one of the ways of spreading bank services. Internet shopping naturally enforces the development of e-money and creates a chance for increasing the transparency of trading.

The last element contributing to the reduction of the shadow economy through the growth of the electronic economy is education initiatives with a view to broadening the knowledge about non-cash trading, deepening trust in banking services as well as teaching about the impact of the shadow economy on the national economy.

Considering these conclusions, it is apparent that a major way to fight with shadow economy is the broader use of electronic payments and the development of electronic technologies. One of the big challenges for every government is to undertake efficient incentive orientated policy measures in order to increase non cash payments. Successful implementation of such policies may lead to a stabilization, or even reduction, of the size of the shadow economies.

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WHAT TOUCH POINTS COULD BE IDENTIFIED BY A CUSTOMER OF THE LEISURE, RECREATION OR TOURISM SERVICE?

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Abstract

The specifics of the leisure, recreation and tourism services is analysed in the article on the viewpoint of these services customer. The similarities and the differences of their values, motives to use a service, describing the specifics of the behaviour of the customer, the expression of commerciality, the assortment and the package, other points of the leisure, the recreation and the tourism service are identified on the ground of the scientific literature analysis and synthesis. The survey results showed the differences and the similarities in the factors influencing the consuming of the leisure, the recreation and the tourism service, motives to use, an urgency of separate the motivators of a customer, their value appreciated, that's enables the leisure, tourism and recreation suppliers to think about the promoting and positioning their provided services, presenting it to the consuming market.

Keywords: customer's motivation, leisure service, recreation service, tourism service.

JEL Classification: P46, L83, M21.

Introduction

Huge attention to the leisure services industry forces to get more detailed into the essence of leisure. Authors (Tribe, 2011; Leitner, Leitner, 2012) do not agree on the classification and the grouping the leisure services. Different concepts of the leisure, the recreation and the tourism could be found (Mill, 2008). Some of them could be easier, some of them – heavier introduced to the customer. It depends usually on the individual's perception of leisure time and the activities used (Honggen, Huyton, 1996). There are some similarities between these three concepts of the services (Gallarza et al, 2013), which are generally related to the leisure time, free from responsibilities, duties and constrains, to the customer's value and preferences paid. However, some differences also exist. The researches on the leisure services define several criteria for separating them: the motives of a customer (Honggen, Huyton, 1996), the distance to an individual's home (Torkildsen, 1999), the services nature and delivery (Langvinienė, 2012), the commerce purposes (Tribe, 2011), the value for a customer (Carr, 2002; Jeninngs, 2007; Heitmann, 2011), and etc.

The research problem could be formulated as follows – what are the similarities and the differences of the supply, delivery, services package, and the value of three services' categories: the leisure, the recreation and the tourism? Does a consumer can identify the clear distinguish between the value and its elements, provided by the leisure, the recreation and the tourism services suppliers?

The aim of the article is to disclose the similarities and the differences between three services related to the leisure on the viewpoint of the customers:

the leisure services, the recreation services, and the tourism services.

Similarities and differences between services used during the leisure not only on the viewpoint of the scientists, academicians, but also on the viewpoint of users, it is consumers of such services are provided. The novelty of the paper is based on practical implications, too. The managers of the leisure, recreation and tourism services can prepare the promotion, positioning strategies of their services on the basics of customers preferred values, motives for these services.

Methodology of the research. The scientific literature is analyzed and systemized for the theoretical background of the survey. Touch points of the leisure, the recreation and the tourism services are identified, as well as the differences between these three categories are clarified. Empirical survey is done on the basis of the survey of the leisure services customers. Questionnaire in written was used. The survey was done in spring, 2013. The relations of the answers were evaluated; the means of customer's estimation were calculated; content analysis of the answers of the respondents was realized. The limitations of the survey are as follows: the serious leisure services, the business and conference, as well as other tourism services are not analysed in the article because of they are not related to the leisure time, free from job, studies, schools, from the duties and responsibilities, constrains.

The research results are as follows: the distinguish between three categories of the leisure services on the basis of the services (core and supplementary services, value and products covered) included; the supply (width and deep of the assortment), the motivating factors for consuming the services, the values and goals of a customer, etc. are done. The customer's opinion on the

perception of these three categories of the leisure services is provided: what the value they expect, what factors and motives influence their choice, do they have clear knowledge about what these services structure, the supply and the value created.

Literature background

Services and products of the leisure, the recreation and the tourism are complex enough. Page, Connell (2010) explains the complexity of separating these three categories of services. According Tribe (2011), the leisure and the recreation are coherent because of the nature of *leisure time*.

The nature of the activities during the leisure determines that staying at-home individuals their leisure time relates more to the daily activities, routine than the recreation and the tourism, which are used away from home. The recreation time is more related to the activities during leisure time. However, the recreation is more than the activity (Mill, 2008), as it relates to pleasant activity. Person's attitude to this activity is more important than activity itself. The tourism is related more to the working activity than the leisure and the recreation, as individuals could go away from home also for the working purposes. Free time is also required for the tourism. It should be stressed that free time plays not the same role in the using the leisure, the recreation or the tourism service. The leisure services are used during free time. The recreation services also are used during free time. However some exception should be mentioned. Several recreation services should be used in order to recreate, to recover after the illness or to prevent the illness, to support the efficiency of working of an individual. It's difficult to separate the working activities and hobbies for the computer programmer who uses computer during leisure time. Exception appears in the tourism services consuming, too. The students studying abroad could be described as the students and the tourists at the same time. Thus, the working and the traveling similarities also exist, because it is possible to join a work and a travel during the business trips, the travel for the studies, etc. Students, who are studying abroad, could be the foreign tourists at the same time. The condition for excluding what service is the tourism service is duration of the service, as the tourism service is consumed longer than 24 hours. However World Trade Organization (WTO) do not use the strict length of time for the defining the tourism service, but WTO point out that a customer of the tourism service travels outside usual environment for a specified period of time and whose main purpose of travel is other than exercise of an activity remunerated from the place visited (Definition of tourism, 2013). Mill (2008) defines the tourism service as one or more recreational services at a location temporarily away from home. This definition reduces the distance between the recreational and the tourism activities. That is why a necessary condition – the overnight services, accommodation – should be included in the tourism services' package in order to make clear distinguishes between these terms (recreation and tourism).

According to the *place of services consuming*, the leisure services could be identified as home-based, the recreation – as recreation-based, and the tourism – as travel-based services (Langvinienė, 2013). In a broad sense, all these three categories of services could be described as leisure. However, some services are used at home, as home-based, other – as not home-based services, as recreation and tourism (Williams, Shaw, 2009). *Distance* as a key element could be used for separating what are the leisure, the recreation and the tourism services. Page, Connell (2010) suggest to separate three zones according the use: the day trip zone, the weekend zone and the holiday or vacation zone. It seems that the leisure and the recreational activities are related to the day trip zone, the weekend and holiday zone – to the recreation and the tourism, depending on the distance of the destination place, wishes and available resources, a mobility of a customer. The tourism differs from the leisure by the space, as vacations occur in the destinations separate from the place of origin (Carr, 2002), different from individual's living territory (Mill, 2008). The place of services used is the one difference between the tourism and the recreation services, upon Carr (2002), as nature of these services and facilities used are very similar. The recreation services often occur in close proximity to one's primary residence (Wu, Cai, 2006). The recreation is provided by the services suppliers, who have the facilities, the equipment, and knowledge, necessary for providing the service. Customer should leave home in order to consume the recreation service (short or long use). The tourism services are consumed usually far away, and overnight and other hospitality services (Mill, 2008) are used.

Tangeland, et al (2013) for separating the services, related to the outdoor leisure, suggest use two dimensions: the distance from home (was discussed already above) and the level of *commercialisation*. Authors pointed out that the recreation and the tourism services, what share the same resources and facilities, compete for the same money and time of a customer. Pfister, Tierney (2008) point out that the non-commercial leisure, the recreation and the tourism services could be divided into two categories: 1) the non-profit; and 2) public services. Other research shows that the non-commercial services could include both categories (Page, Connell, 2010) and sometimes it's difficult enough to separate them. Non-commercial services in the supply of the recreation and the tourism services also exist: the public parks, the cultural events initiated by Municipalities, the celebration of religion societies, the public beaches, the volunteer-based theatres, the museums, and etc. From the viewpoint of the services suppliers' – the non-profit and the public leisure, the recreation and the tourism services – do not differs because of financing. However, from the viewpoint of the suppliers', the non-profit leisure, the recreation and the tourism services are based on the fees and the charges of their members and foundations; and the public – on the tax revenue (Pfister, Tierney, 2008). There are some difficulties to identify what the services and products are commercial in the using the leisure, because the activities during the leisure time compete with the duties and the

responsibilities for the family member, housekeeping. The recreation and tourism services' commercialization level could be identified more easily. Samples of the recreation non-commercial (public and non-profit) services are as follows: the recreation and park programs, the county parks and facilities, the volunteer clubs, the volunteer sport associations. The tourism services providers, who are working with no-profit purposes, are: tourism offices, state tourism agencies, sport stadiums, music, art celebrations, and special events. The non-profit suppliers in the tourism services industry are fewer than in the recreation one. Thus, the non-profit recreation services variety is rather broad (Pfister, Tierney, 2008).

The nature of the leisure, the recreation and the tourism services influence that their choice is determined by three *groups of the factors*: 1) the personal; 2) the social and environmental; and 3) the potentiality. The personal factors, influencing the choice of the leisure, recreation and tourism services, could be as follows: personal obligations, resourcefulness, perceptions of leisure, attitudes and motivation, interests and preoccupation, skills and abilities, personality and confidence, etc. (Page, Connell, 2010). The social and circumstantial factors are: occupation, level of income, material wealth and goods, car ownership and mobility, time available, duties and obligations, home and social environment, friends and peer groups, social roles and contacts, environment factors, mass leisure factors, education, population and cultural factors. The opportunity factors could be: resource available, leisure facilities, awareness of leisure opportunities, recreation services available, transport, costs, management and marketing programmes, and Government policy. The survey of Tangeland et al (2013) showed that the intensions of a customer usually are pushed by several factors, not single one. Getting more deeply, a few of factors, influencing the choice of consuming are more urgent for the leisure, other – for the recreation or the tourism services customers. Economic determinants, such as incomes and price for the substitute and the complimentary leisure products and services – as the most urgent; after that – time available (Graham et al, 2008). Time is necessary for all three categories of the services, but has a different impact. A free weekend could be the motive for an individual to think about the possibility to go far from home; it is for the tourism activity. A free evening is the precondition for the leisure or recreation. Recreation services could be used having more free time, but fewer resources, etc. Available information, previous learning, attitudes, feelings and motives of an individual influence the choice of recreational services (Field, 2011). The family cycle life, household composition, nationality and cultural background (Graham et al, 2008; Tangeland et al, 2013), societal values, norms and pressures (Heitmann, 2011) influence the choice of the tourism services more than the leisure and the recreation not far from home. Seasonality influences the consuming the tourism services as people traditionally take their holidays during the summer time (Dieke, 2011). The larger differences in the climate, the larger correlation is between the seasonality and the increase of the tourism services' demand. The impact of

seasonality depends on the economic environment, too. According Dieke (2011), the developing countries usually have a longer mild climate season and are able to attract more tourists. The developed countries attract tourists not only the summer time. Thus, their dependence on the climate is less. The recreation is less affected by the seasonality, as the consumption is possible on weekends, spring time, autumn, or even during holidays in winter time. The leisure services consuming is less influenced by the seasonality than the tourism and even than the recreation services, as services are daily use.

Value of the services quality perceived depends more on the services setting and affective antecedents (social value, play and aesthetics) than on cognitive antecedents (efficiency, quality and effort spent) (Gallarza et al, 2013). Ryan, Glendon (1998) determine that four motives to use the leisure, the recreation and the tourism services are important: 1) wish to engage in the leisure activity, which involve mental learning, exploring, learning activities; 2) wish to engage in the social activity, need for the friendship and the relationship; 3) wish for the competence improvement, challenge, compete; and 4) wish to get away from over-stimulating life situations. The internal factors influence the choice of the tourism and the recreation more than the leisure services. The values and wishes of an individual differ in co-relation to with whom an individual is spending his (or her) leisure time, holiday (Carr, 2002). The young people recreating or traveling with the peer members will choose more active entertainment than being with their parents. They can ignore their own motivations and wishes if they feel the responsibility to spend time with parents. All three categories of services are consumed during leisure time (except business travel or serious leisure), all they have leisure, recreation components. Jennings (2007) describes the tourism service as essentially recreational travelling service. The majority of consumed services are associated to the recreation, tourism and leisure – is pleasant activity. Mental and spiritual rest are provided by all three categories of these services (Jennings, 2007). The boundaries between the leisure, the recreation and the tourism services are blurred, as it is rather difficult to separate the meaning of these services, the value for a customer.

Consuming the leisure, the recreation or the tourism service – a *package of benefits* is appreciated by a customer. The individuals, who consume the leisure services, usually appreciate the possibility to find a balance between the psychical, spiritual and mental rest; as well as the possibility to meet friends for the common leisure time is very important (Langvinienė, 2013). Benefits of the leisure consuming could be as follows: appreciation of satisfaction with experiences and greater control over one's life, free choice of activities, sense of relaxation and refreshment, personal growth and development (Page, Connell, 2010). The values, appreciated by the recreation services customer, could have more tangible expression than by the customer of the leisure. The value, preferable by the customer-tourist also could be a retaining of the individual's normal social, physical skills that are used to establish and to renew acceptable parameters, strengths for actions (Ryan,

Glendon, 1998). The recreating on weekends – more possibilities to rid the stress, reduce the tiredness could be used. The travel and tourism on holidays have much more possibilities of getting the wide package of services, the values and benefits for a customer. Sirakaya, Woodside (2005) stressed that the value of the tourism services customer – play the most urgent role in the choosing the service. The tourism services consumers appreciate a clear tangible value, health improvement, too. The goals of the travel could be related to the leisure purposes (Gallarza et al, 2013). Intensive working and personal life requires combine the trips for business, visiting journeys, professionals' visits with the pleasant activities, the rest, and the recreation.

The widest *supply* of the services is provided under the recreation term. The leisure services and products usually are not very easy identified as leisure, because a few of them (or even a majority of them) could be attributed to the housekeeping, ICT, etc. The supply of the tourism services and products is narrower than the recreation, however a few of them should be consumed obligatory, e.g., accommodation, transport to the destination place, catering, etc. Services, which are called as the tourism, and as the recreation, could be very similar. Sometimes the tourism services make a part of the recreation services package; sometimes the recreation is included into the package of the tourism services supply (Hara, 2008). Tangeland, et al (2013) point out that namely a tourist as a customer is going to get very different values and satisfy his (or her) needs by the tourism services: to take risk, relax, be physically active, enjoy the nature, learn something new, or engage in the social interaction, escape from the routine. The difficulties arise in attempts to define what is the tourism or the recreation services. The same-day travels excursions according the tourism service definition are not identified as the tourism, as lasts shorter than one day (Lew, et al, 2004). The customer is capable to visit the same attractions, museums, arts as going for the trip to other place, not the local one. The individuals, who are traveling as coastal leisure tourists, have more affinities to the recreational than to the tourism services' consumers. The difficulties separating the tourism and the recreation service could arise. Given innovation in the transport technologies increase the use of same-day trips. Nowadays the tourism service could be analysed in a broader perspective. The specifics of these three services categories are presented in the Table 1.

The similarities are arising in *the services consumed*. The travel itself could be the leisure travel or the business travel (Page, Connell, 2010). The recreation travel also could be while people are going with the recreation purposes to the place of the destination. The day-trip could not be defined as the tourism service, but could be defined as the recreation activity. The tourism services and the recreational services very often are acting as substitutes (Wu, Cai, 2006). The individual, who wish to relax in the wellness spa centre, not obviously should leave his home for a long time. It could be even half day consuming, or even the weekend spa vacation.

Table 1

The specifics of the leisure, the recreation and the tourism service

| Criteria | Leisure | Recreation | Tourism |
|--|---|--|---|
| <i>The common definition</i> | Leisure as a time, free from responsibilities, a time characterised by freedom | Activity during the leisure time leading to renewal | Activity during the leisure time (in other words leisure and recreation), going away from home for one night and more |
| <i>The participation of the customer</i> | Voluntary, not obligatory | Voluntary, could be on the some level obligatory (if necessary for the prevention or after illness) | Voluntary for visiting and rest purpose, obligatory for business and conference tourists, professionals |
| <i>The major purposes</i> | Rest, recover after the stress, get rid, balance of the quality of life | Physical and spiritual rest, socialization, hobbies, interest of individual, self-realization, pleasant activity | Acquiring knowledge, visiting tours, new places, improvement health and wellbeing, rest upon wishes |
| <i>The motives</i> | Internal goals (getting balance between the rest and duties, constrains, preparing for the working day) | Internal goals and rewards (as personal satisfaction, needs to escape from routine) | Internal (personal hobbies, wishes, interests, needs) and external (professional, working, studying requirements) |
| <i>The commerciality</i> | The majority of products and services for the leisure are free of charge | A variety of the products and services from very cheap to very expensive, from free of charge to non-commercial ones | Products and services supplied in the one package for primary and extra prices |
| <i>The services included</i> | Listening to the music, video games, watching TV, reading, DIY, gardening, leisure use of a computer | Entertainment, sports and exercise, music, art, dance, games, social activity, nature activities (outdoor recreation), eating and drinking, leisure parks, visitor attractions | Traveling to the destination place, accommodation, recreation at destination place, holiday parks, resort complexes, camps, catering, transport |
| <i>The consumer profile</i> | Residents, daily users | Residents and non-residents, weekend, occasional users | Non-residents, holiday (vacation) users |

Source: contributed by authors on research of Pfister, Tierney (2008), Page, Connell (2010), Honggen, Huyton (1996), Tribe (2011), Langvinienė (2012), Leitner, Leitner (2012)

Not all services for the travel and recreate services users could be attributed to the leisure activity. The business travel services have more similarities with the working activities, as well as serious leisure services (e.g., the treatment in sanatorium) – with the working or obligatory activity. Many of the leisure or the recreation services could be analysed as the leisure services, which

are used upon the wishes of an individual, or serious leisure services. The serious leisure services are not a part of the leisure, the recreation and the tourism services industry, as their consuming is influenced by the external motives usually (Hall, 2006). The business travel also is not related to the leisure time. The businessman, who plays golf with his business partners in order to keep the business partnership, is using the serious leisure. The individual, who is a volunteer and organize leisure for colleagues in his job place, will realize his hobbies and interests through his working activities.

Behaviour of the tourism customer differs a little bit, as he (or she) behaves more in liberated and less restrained manner than the leisure person. Consumer is engaged in the less strict activities than the recreation person. The services used daily, the recreating and traveling, could differ. Carr (2002) noticed also that the behaviour of a customer during the holiday is a continuum of the leisure habits on his or her daily life. The behaviours are similar to those engaged upon at weekends when the main motivations were ones of relaxation, having fun. Thus, different origin and destination between the leisure, the recreation and the tourism does not mean there is no relationship and similarities at all. There are a lot of touch points at which leisure, recreation and tourism services are inter-related and complimentary in the individual's life.

In summing up, the definitions of the leisure, the recreation and the tourism service are formulated:

The leisure are the services consumed during the time, free from the responsibilities and constrains; giving the possibility to rest, recover after the stress and to take care on the individual's quality of life; the services of the daily users, not leaving the territory of the living place usually; the services used by the residents of the economy; the services, which could be used in the distance from their production place.

The recreation are the services consumed during the free time, which are rather active and requires the customer's participation (high or low level); giving the possibility to choose between various activities; used by the consumers, who have free time from the responsibilities, are able to leave home in order to consume short or long time services in order to recreate in other than the homes place.

The tourism are the services, which are not related to the work and responsibilities; the services consumed during short or long holidays, long weekends far away from home and far enough from the traditional living territory of an individual; the services, what have recreational elements and include the accommodation, as well as the recreational services, the transport and the catering services are appreciated.

Research design

Survey was done in order to disclose the similarities and the differences between the leisure, the recreation and the tourism services consuming on the customers' viewpoint.

Design of the questionnaire was based on the separate questions disclosing what the services the

customers attribute to the leisure; what factors are crucial for the choosing the leisure and what factors of them are able to increase the demand for the leisure, it is acts as the motivators for the demand. The same logic was used for constructing the questions about the recreation and the tourism services consuming. The similarities and the differences between these services were pointed out on the basics of the results of the comparative analysis of the survey results. Pointing out the services, which are used as the leisure, the recreation and the tourism, the respondents have had an opportunity to mark more than one answer. That is why a percentage expression is calculated not from all answers, but from the number of the respondents (it is from 118). The respondents, who pointed out that they do not consume these services, were not filling the answers about the factors, influencing these services consuming, as well about the motivators, which could increase the demand for these services consuming, values expected.

Evaluating the factors, which influence the consuming of the leisure, the recreation and the tourism services, 4 points Likert scale was used (from "1" – as not influencing at all, to "4" – an influence is very high). Besides that, the respondents were able to point out that they do not know that the factor is influencing choice or what the factors are acting as motivators for the increasing the demand. Actually just several respondents pointed out that they do not know what the factors influence or do not influence their choice (from 1 to 3 respondents for each factor). One exception could be mentioned: the part of respondents (13 respondents or 11 percent of them) mentioned that they do not know if more peer and friends would increase their demand for the leisure services. It was the largest part of the respondents, who were not sure about the demand's influencing factors.

A grouping of answers for the analysis of the results of the survey was done. Analysing the most important factors for consuming the services the answers with "3" (average influence) and "4" (high influence) were joined. The factors, what have had very low influence ("2") or have had no influence ("1") also were joined in the findings of the survey.

The same evaluation was used for the leisure, the recreation and the tourism services' demand increase factors: from "1" – as no motivator for the increase the demand, to "4" – as a high motivator for the increase. The joint answers (the grouping of the answers) in the analysis were used: "1" and "2" – as no motivator to increase the consuming the leisure, the recreation and the tourism; and "3" and "4" – as acting motivators to increase the consuming. The values and the goals of the services customers consuming the leisure, the recreation and the tourism services were estimated on the basics of Likert 4 points' scale. The means of the answers were calculated. Defining the services the respondents were asked to associate their consumed services to the place of the consuming: the leisure services – as the home-based services, the recreation – as the recreation-based and not very far from home services, and the tourism – as the travel-based services, far from home.

Evaluating the differences between the leisure, the recreation and the tourism services a question about the expenditures for these services per month was formulated: till 15 euro, 16–30 euro, 31–60 euro, 61–90 euro, 91–120 euro, 121–150 euro, and more than 151 euro per each group of services.

The limitation of the survey is that respondents were rather young people (average of the respondents were 23 years old). Quantity of the respondents is limited one (118 total), thus the survey could be called as a pilot one. Actually the same number of the women and the men were participating (respectively 57 women and 61 men). The large part of the respondents was students (47 of them or 40 percent), or students and employees at the same time (30 respondents, it is 25 percent). 34 percent of respondents (40 respondents) were working and not studying, 1 percent – were unemployed at the moment of the survey.

Findings of the survey

Results of the survey showed, 2 from the respondents (or 1.7 percent) do not use the leisure services at all. It should be noticed that they use the leisure services, but not the commercial one. 33 percent of the respondents were pointed out that they do not consume the recreation services (39 respondents); and 34 percent of the respondents were pointed out that they do not consume the tourism services. Several of the respondents a time for the leisure identify as the possibility to work, to engage in the gardening activities, too (Figure 1).

There are some similarities among the leisure, the recreation and the tourism services. On the viewpoint of the customers, all three categories of the services are related to the entertainment services. The sport and treatment services have more similarities to the leisure and the recreation than to the tourism services. The relaxation activities are supplied by the tourism and the recreation services suppliers, but not by the leisure one. The travel services also were common to the recreation services, upon the respondents, as 39 percent of respondents identify the travelling services as a part of recreation services. The leisure service differs, as they have much more generalities with the duties and responsibilities, what should be done during the leisure time. The business trips are identified as the tourism services only by 5 percent of the respondents, that's mean, what the respondents separate the travel related with the job and with the pleasant activity. The medical tourism as a part of the travel services was mentioned by 8 percent of respondents; that's rather similar to the respondents (5 percent), who have identified that sanatorium services are the relaxation services. Thus, the value of the tourism and the recreation services upon the respondents has more recreational, intangible elements than tangible one, as treatment, medicine, etc.

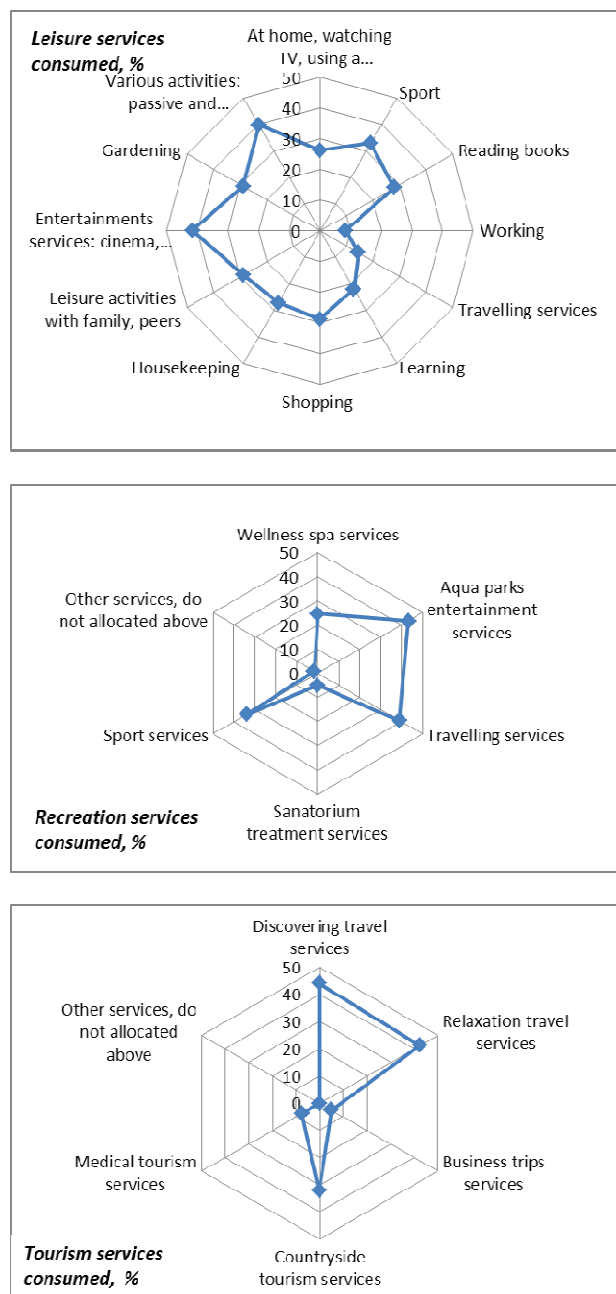


Figure 1. Identity of the leisure, recreation and tourism services on the viewpoint of consuming, %

Factors, which influence the consuming of the leisure, the recreation and the tourism services, have some similarities and some differences (Table 2). As was mentioned already, the answers of the respondents were filled by who's marked that they use these services. Thus, the answers of 39 respondents about the recreation services factors and motivators, and the answers of 40 respondents about the tourism services – were eliminated for the analysis. The answers of the high influence and average influence were estimated as the urgent factors. There are much more similarities between the factors, influencing the recreation and the tourism, than influencing the leisure services. The most important factors for influencing the leisure are: financial situation (87 percent of respondents), quality of services (86

percent), price of services (84 percent), time (71 percent), place (69 percent), self-feeling and discounts (68 percent). The opinion was less solid about the factors, influencing the recreation: quality of services (69 percent), price and financial situation (65 percent), variety of services (58 percent), and self-feeling (57 percent) are urgent. After that – time available (54 percent), promotions and discounts (53 percent) are important. The tourism services consuming is influenced by the quality of services (58 percent), the price (55 percent) and the financial situation (53 percent). It should be mentioned that the respondents' opinion was more solid thinking about the factors influencing the consuming the leisure services. The tourism and the recreation services factors were more different.

Table 2

Factors, which influence on the consuming of the leisure, recreation and tourism services is high

| Factors | Leisure | | Recreation | | Tourism | |
|---|---------|----------------------|------------|----------------------|---------|---------------------|
| <i>Interests of the family members, peers</i> | 57 | (11 th) | 43 | | 45 | (9 th) |
| <i>Time available</i> | 71 | (4 th) | 54 | (6 th) | 50 | (5 th) |
| <i>Self-feeling</i> | 68 | (6-7 th) | 57 | (5 th) | 48 | (7 th) |
| <i>Price of services</i> | 84 | (3 rd) | 65 | (2-3 rd) | 55 | (2 nd) |
| <i>Quality of services</i> | 86 | (2 nd) | 69 | (1 st) | 58 | (1 st) |
| <i>Financial situation</i> | 87 | (1 ^{st*}) | 65 | (2-3 rd) | 53 | (3 rd) |
| <i>Place</i> | 69 | (5 th) | 48 | (9 th) | 49 | (6 th) |
| <i>Promotion, discounts</i> | 68 | (6-7 th) | 53 | (7 th) | 51 | (4 th) |
| <i>Variety of services</i> | 64 | (9 th) | 58 | (4 th) | 47 | (8 th) |
| <i>Available information</i> | 35 | | 27 | | 32 | |
| <i>Accessibility of services</i> | 65 | (8 th) | 50 | (8 th) | 40 | |
| <i>Weather conditions</i> | 61 | (10 th) | 47 | (10 th) | 43 | (10 th) |
| <i>Seasonality</i> | 48 | | 33 | | 38 | |

*range according urgency on the viewpoint of customers, while 1st – the most urgent

The factors, which do not influence the consuming of the leisure, the recreation and the tourism services, are presented in the Table 3. It should be noticed that the respondents have had no solid opinion about what the factors do not influence the consuming of the leisure, the recreation and the tourism, except some of the factors. Available information about the services does not influence the consuming the leisure services (64 percent of respondents). The seasonality (48 percent), the interest of peers (43 percent), the weather condition also does not influence the leisure services consuming. The same factors, which influence is not high, were mentioned because of the consuming the recreation services. However, the opinion was not solid. Fewer respondents agreed that these services consuming is influenced by these factors. Available information about the tourism does not have an influence on the consuming. It is interesting to noticed, that the seasonality does not influence the consuming on the viewpoint of 25 percent of respondents. There was not such solid opinion, what other factors don't influence consuming of the tourism.

Table 3

Factors, which influence on the consuming of the leisure, recreation and tourism services is low

| Factors | Leisure | | Recreation | | Tourism | |
|---|---------|---------------------|------------|--------------------|---------|----------------------|
| <i>Interests of the family members, peers</i> | 3 | (3 rd) | 8 | (3 rd) | 9 | |
| <i>Time available</i> | 8 | | 8 | | 4 | |
| <i>Self-feeling</i> | 0 | | 3 | | 4 | |
| <i>Price of services</i> | 4 | | 8 | | 8 | |
| <i>Quality of services</i> | 2 | | 4 | | 6 | |
| <i>Financial situation</i> | 3 | | 8 | | 10 | |
| <i>Place</i> | 0 | | 5 | (5 th) | 5 | |
| <i>Promotion, discounts</i> | 2 | | 1 | | 4 | |
| <i>Variety of services</i> | 4 | (5 th) | 6 | | 7 | |
| <i>Available information</i> | 4 | (1 ^{st*}) | 5 | (1 st) | 1 | (1 st) |
| <i>Accessibility of services</i> | 1 | | 4 | | 5 | (2-3 rd) |
| <i>Weather conditions</i> | 7 | (4 th) | 6 | (4 th) | 0 | |
| <i>Seasonality</i> | 8 | (2 nd) | 5 | (2 nd) | 5 | (2-3 rd) |

*range according urgency on the viewpoint of customers, while 1st – the less urgent

The motivators, which could increase the demand for the leisure, the recreation and the tourism services, according to the viewpoint of customers, are presented in the Figure 2.

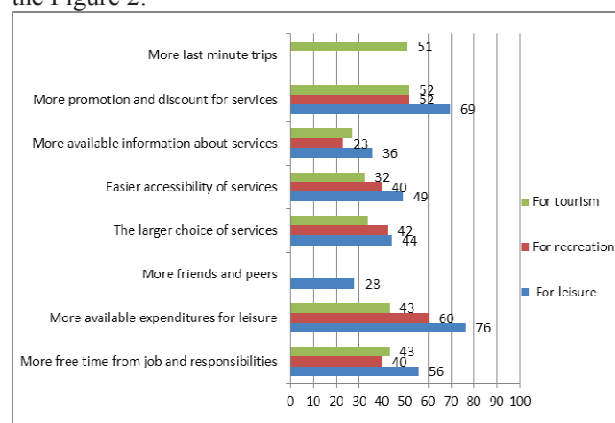


Figure 2. The motivators, which increase the demand for leisure, recreation and tourism services, %

The demand for the consuming the leisure services would be increased if more expenditure for the respondents would be available (76 percent of the respondents). The larger promotion for the leisure services and more available discounts would be the influencing motivators for the leisure services consumers, too (69 percent). More free time and the easier accessibility of the leisure services also act as the motivators. The increase of the recreation services demand would be positive if more expenditure for the leisure (60 percent of the respondents) and more promotion, as well as discounts would be available. The demand for the tourism services is stipulating by the last minutes trips (51 percent) and discounts (52 percent).

More free time and more expenditure would stimulate to increase the demand for 43 percent of the respondents.

The motivators, which do not play an urgent role in the increasing the demand for the leisure, the recreation and the tourism services are presented in the Figure 3.

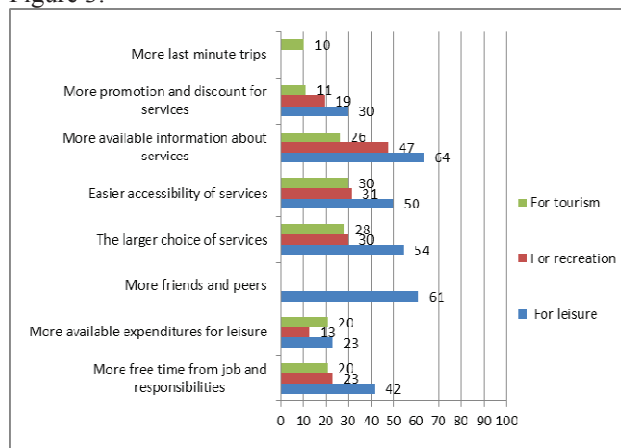


Figure 3. The motivators, which do not acting as factors for increase the demand for leisure, recreation and tourism services, %

More information and more peers, as well as the larger choice of the services will not motivate to increase the demand for the leisure services consuming (respectively 64 and 61 percent of the respondents). The recreation services consuming will not be enlarged by more available information about the recreation services (47 percent). There was not solid opinion about the motivators which have no influence to increase the demand for the tourism services. That means that the motivators, which were listed in the questionnaire, were rather important for the increase the demand for tourists, according the respondents. Perhaps three possible motivators could be still mentioned thinking about the tourism services. One third of the respondents pointed out, that the easier accessibility of the services (30 percent of respondents), the larger choice of the services (28 percent) and more available information (26 percent) do not do any influence on the increasing the demand for these services.

The value and the goals of the consuming the leisure, the recreation and the tourism services differs a little bit (Table 4). As findings show the leisure services should enable to rest for the customer's mind, spirit, and to bring the possibility to pass the leisure upon wishes ("3.01" from "4" available). As well the leisure services should enable to engage into the activity, which is pleasant (2.94) and improve the individuals' competences, hobbies and interests (2.90). Free alternatives of the pleasant activities were pointed out by the customers for the recreation services (3.12). The possibility to improve the competences, realize the hobbies and interest, improve the health and wellbeing were pointed out very similarly (2.93-2.96). The highest evaluation for the value, provided by the tourism services, were given both to the tangible value, it is the health and wellbeing improvement, or to the intangible

value, it is the rest for the mind, spirit, the possibility to pass the leisure upon the wishes of an individual.

Table 4

The values and the goals for the leisure, the recreation and the tourism services

| Value expected | Services | | |
|---|------------|------------------|--------------|
| | Home-based | Recreation-based | Travel-based |
| <i>Should enable to choose the activity for the leisure, free from the responsibilities</i> | 2.89 | 2.96 | 2.90 |
| <i>Should enable to engage into the activity which is pleasant and choose between the alternatives: to rest, to recreate or to meet the friends</i> | 2.94 | 3.12 | 2.93 |
| <i>Should enable to engage into the activity improving the competences of and individual, hobbies and interests</i> | 2.90 | 2.95 | 2.87 |
| <i>Should enable to rest for the mind, spirit, to pass the leisure upon the wishes</i> | 3.01 | 2.88 | 3.05 |
| <i>Should improve the health and wellbeing</i> | 2.78 | 2.93 | 3.04 |

* While "1" – do not agree, "4" – totally agree

As findings of the survey show there are no significant differences in the expenditures for the leisure, the recreation and the tourism services (Table 5).

Table 5

Average expenditures per month for the leisure, the recreation and the tourism services, %

| The average of expenditures per month | Services | | |
|---------------------------------------|----------|------------|---------|
| | Leisure | Recreation | Tourism |
| till 15 euro | 34.7 | 15.3 | 13.6 |
| 16–30 euro | 23.7 | 23.7 | 15.3 |
| 31–60 euro | 16.1 | 12.7 | 17.8 |
| 61–90 euro | 11.9 | 6.8 | 11.0 |
| 91–120 euro | 5.1 | 3.4 | 5.9 |
| 121–150 euro | 2.5 | 1.7 | 1.7 |
| more than 151 euro | 4.2 | 1.7 | 4.2 |
| no consuming | 1.7 | 34.7 | 30.5 |

However some facts could be mentioned. As the respondents were young, their expenditure per surveyed services was not large. The one third of the respondents (34.7 percent) pointed out that they consume the commercial leisure services spending till 15 euro per month. After that – one fifth of them (23.7 percent) spend about 16–30 euro per month, or less part (16.1 percent) till 60 euro. The recreation and the tourism services are usually more expensive, thus smaller part of the respondents mentioned that their expenditure per these services per month do not exceed 15 euro per month. The answers about the expenditure for the recreation and the tourism services were more different that for leisure services. That is why it is possible to point out that expenditures for the recreation and the tourism services is very different and depends on a lot of factors.

Discussion and concluding remarks

The phenomenon of the leisure, the recreation and the tourism services is rather complicated. There are some similarities of the services, which could be defined

by these terms. All three categories of the services are used during time, free from responsibilities, job, studies, and constraints. Services of the leisure, the recreation and the tourism are pleasant, voluntary and enable the individual to choose the alternatives upon his or her wishes, values and needs. The primary goals and the value provided by three categories, what could on the broad sense be called as leisure, is a rest of the physical body, mind and spirit, the reduce of the stress, the getting rid and preparing for the working and family life, the satisfying socialization and self-expression needs, the filling a gap in the entire system, the guaranteeing the individual's quality of life.

The specifics (idiosyncrasy) of each of the term also could be pointed out. *The leisure services* are daily use, consumed in the usual place for an individual, do not leaving home or home territory, both passive and active actions trying to get a balance in the individual's life, still having a little sense of routine. Sometimes it is difficult enough to separate what is leisure time and what are the obligations and the duties for the family members, as the leisure services overlaps to the responsibilities at home. The same leisure services – the commercial or the non-commercial – could be as work for one person, or leisure for – the other.

The recreation services are the occasional or the weekends use services, which enable an individual to change the place in order to meet friends, peers, to entertain, relax either passive or active away from the home place. The recreation services supply is one of the most wide, as they could be consumed the commercial and

non-commercial one, the short-run (one hour) services or the long-run services. A part of recreational services could be serious leisure, but they are not related to the leisure, as should be consumed obviously (the customer has not alternative – to use it or not).

The tourism services are the holiday-use services, which consumed far away from home, requiring the overnight stay. Other supplementary services are usually included into the package of the tourism services, as catering, visiting museums, transport, excursions, etc. A part of the tourism services are obligatory-use services, as business trips, conference tourism, medical tourism. This part of tourism services could be excluded from the tourism services, which are related to the free time activities, the leisure activities.

Positioning the leisure services – suppliers should think about presenting the value, which is not obviously tangible one: relaxing elements, balance between the life, work and social activities could be stressed. The recreational services suppliers should already think about the possibility what tangible value even for extra charge they could provide for a customer, how to prepare, to manage the services, what are rather various and are appreciated by a customer depending in their socio-demographical characteristics, time, purchasing power, wishes and needs, other factors and motivators. Tourism services providers preparing a package of services for their tourism should not forget about the possibility to include recreational elements in their supply, which enable to satisfy a customer, and, of course, to expand their own business.

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Neringa Langvinienė, Jurgita Sekliuckienė

WHAT TOUCH POINTS COULD BE IDENTIFIED BY A CUSTOMER OF THE LEISURE, RECREATION OR TOURISM SERVICE?

Summary

There are a lot of researches on the conceptualization of the leisure services activities, such as home-based, recreation based and (or) travel-based services and their value for a customer. The matter is that suppliers could not get more detailed in what a service requires a customer, when he or she is looking for the possibility to spend his or her free time. The value for the leisure service, depending on where this service is consumed, could be very different: people, staying at home, usually want to relax, prepare for a new working day, engage in housekeeping, etc. people, who have one or more hours or even weekend, could look for a possibility to go somewhere for pleasant activity, education, self-realization, meeting friends, etc. The group of such services is rather broad: from gambling, sport training, to the libraries, recreational resorts, informal educational activities. The value for a customer could be very mixed one: relax, get rid, relief from pains, balance of well-being, etc. The third possibility to spend time is to travel already far from home during vacation, free time. Activity is also very various: leisure activity, health tourism, adventure tourism, pilgrims, etc. competing in very high competition market forces the suppliers to think what to do in order to survive. That's why a clear positioning of services is urgent present the value separately for the leisure services, for recreation services and for tourism services customer.

The aim of the article was to disclose the similarities and the differences between three services related to the leisure on the viewpoint of the customers: the leisure services, the recreation services, and the tourism services.

Methodology of the research. Theoretical background of the research was based on the scientific literature analysis. Quantitative survey in order to clarify the viewpoint of the customers was done.

Findings of the earlier researches on the leisure, recreation and tourism services specifics showed, that the leisure are services consumed during the time, free from the responsibilities and constraints; giving the possibility to rest, recover after the stress and to take care on the individual's quality of life; the services of the daily users, not leaving the territory of the living place usually; the services used by the residents of the economy; the services, which could be used in the distance from their production place. The recreation are the services consumed during the free time, which are rather active and requires the customer's participation (high or low level); giving the possibility to choose between various activities; used by the consumers, who have free time from the responsibilities, are able to leave home in order to consume short or long time services in order to recreate in other than the homes place. The tourism are the services, which are not related to the work and responsibilities; the services consumed during short or long holidays, long weekends far away from home and far enough from the traditional living territory of an individual; the services, what have recreational elements and include the accommodation, as well as the recreational services, the transport and the catering services are appreciated.

Findings of the empirical survey demonstrated that the leisure services and their value for a customer sometimes is related to obligatory activities, such as gardening, housekeeping, preparing for studies, work, etc. Recreational services by a customer is perceived as pleasant activity, which usually has tangible elements, is away from home, but not very far, such as visiting aqua parks, museums, meeting friends, recreating in resort area, etc. Travelling activities are defined often as recreational activities, too. Tourism services are perceived as tangible value, activities, used far from home and used during holiday time. Customer also appreciates if tourism services have recreational points in their supply, such as relaxing activity, pleasant visiting, tours, etc. Tangible value is more expected by a customer if he or she moves from home, while home activity and services used at home or in the home territory should not obviously be related to tangible value and its related components.

Managerial implications are related on the suggestions of the leisure, the recreation and the tourism services suppliers: positioning the leisure services – suppliers should think about positioning and presenting the value, which is not obviously tangible one: relaxing elements, balance between the life, work and social activities could be stressed. The recreational services suppliers should already think about the possibility what tangible value even for extra charge they could provide for a customer, how to prepare, to manage the services, what are rather various and are appreciated by a customer depending in their socio-demographical characteristics, time, purchasing power, wishes and needs, other factors and motivators. Tourism services providers preparing a package of services for their tourism should not forget about the possibility to include recreational elements in their supply, which enable to satisfy a customer, and, of course, to expand their own business.

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CONSUMER INSIGHTS INTO NANOTECHNOLOGIES: RESPONSIBLE CONSUMPTION MANAGEMENT

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Abstract

Consciously or unconsciously, the term 'nanotechnologies' is firmly entering the life of every consumer-citizen of the global community designating both relatively simple nanomaterials and goods that have already entered the market, and very complex technologies that are supposed to change radically the future of mankind. Applications based on today's basic research are expected to form the next industrial revolution. The unique properties of nanotechnology applications suggest potential to solve some of the most pressing social and business challenges, but they come with uncertainties and risks as all new technologies.

Taking advantage of technological progress and preventing adverse side-effects requires analysis, evaluation and guidance to ensure technology is developed in ways that benefits wider consumer society and every individual consumer on the planet. Unfortunately, general public lacks understanding and awareness of the basic properties, and sometimes even the existence of nanotechnologies and their implications linked to the consumption of nanoproducts. Moreover, a generally sceptical attitude among society groups prevails towards new technologies.

The general lack of public knowledge about nanoproducts that are already on the market in a full swing is likely to bring irrational and erroneous, potentially harmful, results. Therefore, modern technology requires educated work-force and responsible consumers and hence imperative for educated population.

Unfortunately, our previous research on Nanoeducation and Nanothinking (Lobanova-Shunina, Shunin, 2011) has revealed a dramatically low level of basic scientific knowledge and nanotechnology utilitarian value in Latvian students. The research results stimulated the educational component redesign at Information Systems Management University (ISMA), Riga, Latvia. Our mission had a focus on introducing changes into the curriculum to eliminate gaps in scientific knowledge of our students and to foster an active approach to developing responsible scientific consumption practices and to offer an opportunity for students from a wide range of disciplines to learn about nanoscience and nanotechnology, to explore these questions, and to reflect on the place of new technologies in the spheres of their major and in the global society.

Keywords: Nanotechnologies, responsible scientific consumption, consumer identities, nanoeducation.

JEL Classification: M30, M31, M39, L15, I12.

Introduction

'While technology shapes the future, it is people who shape technology and decide what it can and should be used for'
(Kofi Annan)

The map of the globe does not show a place called Technoworld, yet in many ways we are already its citizens and consumers. And as consumers, our lives and behaviours are strongly influenced and shaped by an ever increasing system of modern technology, transcending national boundaries to create a vast technological synergy grounded in complex applications in industrial production, logistics, electronic communications, agribusiness, medicine, and science. We begin to realise that, like it or not, we have become a part of technoculture.

The industrialized world has developed into a production and consumption global community with a highly advanced level of technologies. This process has

led to markedly increased demands for a standard of living and consumption.

However, the current economic crisis has provoked a growing consensus that the 21st century consumer society is on a path that cannot promise its citizens a hope for sustainable future. The prevailing forms of political economy are failing to guarantee the consumers economic stability, preserve ecological resources and services, reduce social inequality, maintain cultural diversity, and protect physical and mental health of citizens. We face related crises of educational, social, cultural and personal sustainability.

On the other hand, current developments in scientific and technological research raise a number of ethical questions comprising responsibility. Areas of research as nanotechnology and biotechnology, regarding food, healthcare and environmental issues, elicit complex and undeniable debates within society today. Scientific-technological research and investments in different areas do not advocate a common good as their overall aim but serve the interests of those who finance the research itself, whilst forcing those who use these products into

commercial traps, often without any research and information regarding the effects they may have on consumers' health.

Striking developments of new technologies, particularly nanotechnologies, are finding applications in all spheres of life and producing rapid, systemic, and far-reaching changes in business, government, society and the environment, alongside with the challenges they pose to society. Furthermore, rapid technological changes are forcing organizations to embrace new technologies and change the way they work and interface with suppliers and customers, thus, leading to changes in many behavior patterns.

However, there is no one-way-fit-all strategy to guarantee a brighter tomorrow for everyone. Nor can the separate efforts of businesses, governments, organizations and individuals cope with the tasks without complementary contributions of others. Yet everyone can benefit from the insights of reasonable research into the nature of change stipulated by the advent of new technologies and innovation.

Consumption and wellbeing: Who is consumer?

We commonly think of consumption as something that benefits individuals. We also tend to think of consumption decisions as being made by individuals or families, and not so much by businesses, organizations, governments or other groups. However, in contemporary economies, consumption decisions and consumption benefits are more complicated than this individualistic approach suggests.

From a systemic perspective, consumption is a holistic, cyclic process by which goods and services are used and in the end are disposed of by people (Fig.1).

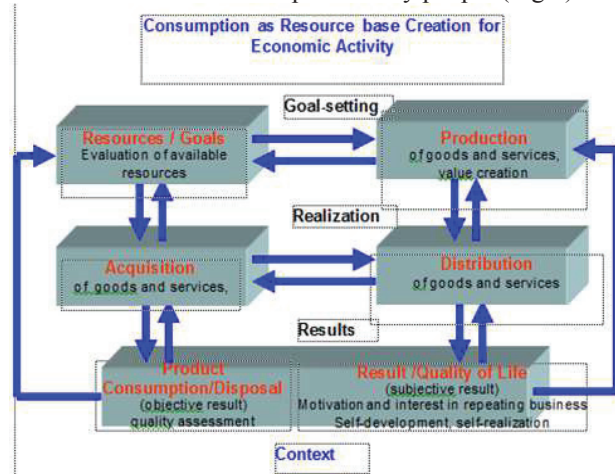


Figure 1. Consumption as a resource base creation process for business activity

Consumption is the final round of the cycle in business activities that starts with an evaluation of available resources and proceeds through production of goods and services, distribution of goods and services, and their acquisition by people or groups. Finally, goods and services themselves come to be used and after their life cycle disposed. The effect of this consumption, including depletion of resources and generation of waste

as well as enhancement of people's quality of life and human wellbeing, forms the resource base for the next round of business activity.

Following the concept of a 'cycle' as a unit of the business activities, we can assume that a cycle of production-consumption satisfies a set of important demands:

1. A cycle represents the major relationship 'production – consumption' reflecting the essential certainty of business activity.
2. A cycle is an entire, holistic business act – from the goal to the result, stipulated by feedback ties that ultimately determine the final result.
3. A cycle represents a unity of objective and subjective components, which reveals the possibilities for improvement of business activity and product development as well as allows for scientific analysis of the process.
4. A cycle is a system which is open for the influence of the external environment.
5. A cycle represents a model of an objective business reality, since it reflects the basic relationship – the interdependence of production and consumption.

Much of economic discourse, from Adam Smith onward, has assumed that the functioning of an economy is grounded on the final demand for goods and services. As Smith argued, consumption is the sole end and purpose of all production and the welfare of the producer ought to be attended to, only so far as it may be necessary for promoting that of the consumer.

Thus, as the traditional assumption suggests, the consumer is the reason for economic activity and, therefore, for economic theory as well.

Another suggestion is that having satisfied a certain demand, consumers keep the economy going by generating further demand for goods and services. Without this demand, the supply side of the economy would expire. Thus, as a source of demand, the consumer is the trigger that makes the economic system run.

But people are more than just consumers. Consumption practices most directly address people's living standards or lifestyle goals, which have to do with satisfying needs and getting pleasures through the use of goods and services. The end product derives its value solely from its contribution to the well-being of society and of individual consumers. When everything revolves around the consumer, the question arises: what makes people want to buy and consume?

Developing responsible consumer identities through intellectual consumer practices

Marketing professionals strive to influence consumers toward choosing and purchasing a particular brand of their product, at a particular time and place. To succeed, they have to have a clear understanding about what makes people want to buy and consume.

The fast scientific and technological advancements in such areas as neuroscience, genetics, artificial intelligence, biomedical engineering, computer and communications technology, biotechnology, and nanotechnology call for fresh reflections on what it

means, in the 21st century, to be a consumer, and for ethical judgments on how we might shape our intellectual, responsible consumption on the way to sustainable future consumer society.

What is important for a contemporary consumer to be able to cope with all the tasks imposed by new technologies and scientific advancements in order to make independent knowledgeable decisions? But what if those decisions are influenced by producers and aggressive marketing by businesses?

The modern consumer is not an isolated individual making purchases in a vacuum. Rather, we are all part of a contemporary phenomenon that is often referred to as a global consumer society where all people have become increasingly interconnected and interdependent. This aspect could potentially raise greater awareness of the fact that we are all part of a single global community that shares a common consumer identity as a background and destiny.

All of us are human beings and our human identity is the most essential factor that unites all people of the world (Fig.2). At the same time, all of us are consumers: we consume goods and services, and our consumer identity is another major factor making up our commonality.

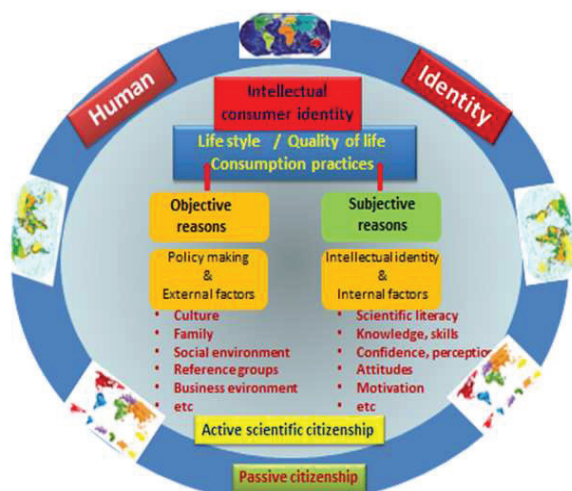


Figure 2. Constructing responsible consumer identity through shaping scientific citizenship and intellectual consumption practices

But against the background of this commonality, we develop different consumption practices due to various reasons – both objective and subjective. Still, on the subjective side, it is, to a great extent, our intellectual power that shapes our decision-making, our life styles and contributes to the quality of life.

It means that we need to have enough knowledge, skills and confidence in a highly technological business world to effectively construct our responsible consumption practices and develop scientific citizenship with the intention to contribute to innovations, sound business practices and facilitation of responsible and informed policy making to satisfy the requirements of individual consumers as well as contributing to the improvement of the quality of life in general. Education, as a major catalyst, has to help people become effective,

scientifically literate, knowledgeable decision-makers and responsible consumer-citizens. The cost is much greater if it does not.

The rise of consumer culture and the increased scientific literacy can be to a certain extent equated with intellectual citizenship, since a scientifically literate public can better contribute to policy making. Thus, the notions *intellectual citizen* and *responsible consumer* become almost conflated, or, at least, harder to differentiate.

We want our students to leave university with a clear understanding of the political, legal and economic functions of the society they live in, and with the social and moral awareness to thrive in it. Responsible consumption remains a crucial way of organizing people's place in the contemporary consumer society. It will undoubtedly continue to change meaning across space and time in the twenty-first century.

This is why we need to consider the role of new technologies in students' daily lives, in shaping responsible attitude to the consumption practices, and their implications for classroom performances. How closely, for example, should students' worlds outside the classroom match what occurs in the classroom? Why is it important to develop intellectual, responsible attitude to consumption? Intellectual, *responsible consumers* are people showing power of the mind to reason and apply knowledge, who are capable of *choosing* through connecting, of *buying* through thinking, of *consuming* through awareness, of *changing* through understanding.

Knowledge management as a means of social change: Who needs nanotechnology education?

According to Petrides & Nodine (2003) knowledge management (KM) brings together three organizational resources – people, processes and technologies – to use and share information more effectively. Knowledge has become the most valuable resource. Important questions have been raised about nanotechnology's potential economic, social, and environmental implications by prominent technology leaders, nanotechnology boosters, scientists, policy officials, and environmental organizations. But there is very little knowledge in wider European society about what nanotechnologies are and what impact they might have on how we live. Many experts acknowledge that uncertainties prevail about this.

The central question on nanotechnology education is 'Do we need nanoeducation?' To answer this question, we should first find out who needs nanoeducation? What is the interest in nanoeducation from those who have expressed the need? What kind of education is needed - expertise, skills, level? For what kind of jobs are skills and knowledge of nanotechnology needed?

Nanotechnology has shaken the world and the advanced countries are investing billions of dollars for its R&D and industrial applications. For example, USA cumulative investments in nanotechnology-related research since 2001 now total over 16.5 billion dollars (environmental, health, and safety research since 2005 now total nearly \$575 million; education and research on

ethical, legal, and other societal dimensions of nanotechnology since 2005 total more than \$390 million) (NNI, 2012). Similar amounts are being spent on nanotechnology by Japan, Russia, China and European Union. Nanotechnology has therefore been taken up in these countries as an important national requirement.

The National Science Foundation (NSF) has estimated that by 2015 the world will require about 2.000.000 multidisciplinary trained nano-technologists, including Europe with about 3-400,000 nano-specialists. Therefore, modern technology requires educated workforce and responsible consumers and hence imperative for educated population. The needs of new emerging technologies and a beneficial state of consumer society are compatible in this case.

To create a sustainable, democratic, technologically empowered and intellectual global society, higher education has to be at the heart of these processes and play a double role (Reid, et al., 2008). First of all, it has to provide a top-level multidisciplinary education to produce a highly educated workforce. Secondly, to educate the general public by ensuring accessible information that will allow people to better understand what nanotechnology is, how it will be applied, and its implications for the society. Responsible consumption is based on understanding of advantages and threats of new technologies (Lobanova-Shunina, Shunin, 2011a).

Thus, higher education must, in one way or another, come to terms with new emerging technologies and identify the paramount place that new technologies have taken in the society. Therefore, the presence of new technologies - as *means*, *object*, and *context* - in the sphere of contemporary higher education is undeniable (Fig.3).

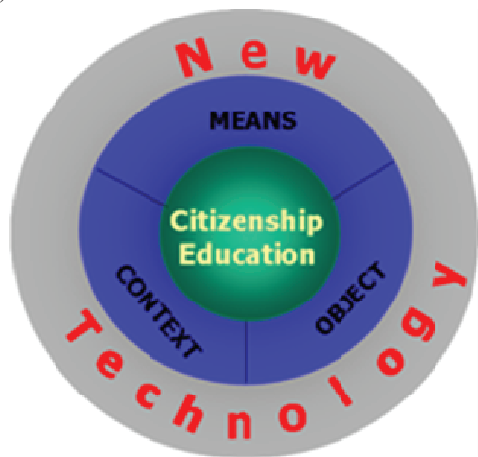


Figure 3. New technology as means, object, and context of contemporary higher education

The European Commission highlights the need to promote the interdisciplinary education and training together with a strong entrepreneurial mindset. It is emphasized that the need for nanotechnologists will not only be confined to the industrial and R & D sectors but will be needed practically in all spheres of life.

Experts have estimated that marketing of nano-based industrial products will have risen to some 2-3 trillion dollars by 2015, and nanotechnology is going to

dominate the socio-economic life of the world for the next 40-50 years (Meyer, 2007).

It requires a lot of resources on the consumer side (intellectual, psychological, etc.) to adjust to the rapid changes in the social and business environment by bridging the gap between the change in attitude and the change in behavior. To a great extent, bridging this attitude-intention behavior gap is stipulated by the increase of consumer awareness and the raise of the knowledge level.

Therefore, shaping intellectual, responsible consumption practices based on knowledge and awareness is viewed today as the development of civic skills contributing to the sustainable future by enabling people to make their own informed decisions about highly complex technological problems of the day, to take responsibility for their health, their own lives and to contribute to the wellbeing of their communities.

To fulfill the task, it is the job of our higher educational systems of the 21st century to prepare young citizens for the challenges and controversies of the rapidly changing and diverse consumer societies and highly technologically empowered business world. It is the role of higher education to develop skills and values required to enhance democratic life for everyone and to make their informed consumer voices heard in policy decision-making. Democracies need knowledgeable problem solvers and responsible decision makers.

Towards an open dialogue on the benefits and risks of nanotechnologies with Latvian students

The term 'nanotechnologies' is firmly entering the life of every citizen of the global community designating both relatively simple nanomaterials and goods such as plastic bags or containers, and very complex technologies that are supposed to change radically the future of mankind, such as prosthetic implants that are controlled by the brain and move, feel, and have the sense of touch like real ones; or invisible brain implants that would enhance human memory storing information equal to several big libraries, altering mood and controlling artificial limbs. In fact, nanotechnologies have already entered the market with an extremely wide range of applications comprising food and beverages, food packaging, dental fillers, toothpaste, optics and electronics, clothing, wound dressing, sporting goods, dietary supplements, cosmetics, and many others, but consumers do not seem to notice or care.

Being avid consumers of products, contemporary Latvian youths are very familiar with their wide variety due to the efforts of marketing campaigns, advertising media and their own use of the Internet. However, as they buy and use today's products, they hold no concept of how these products come to exist or how they are made. Overall, general public's knowledge of the production process is relatively limited and unappealing. This lack of knowledge creates a strong demotivating barrier that prevents many potential students from not only entering, but even considering the field. Such a knowledge gap creates a need to educate the students about what constitutes a modern production process enhanced by

new technologies, particularly, nanotechnologies, and intellectual consumption.

In this paper we describe an effort to bridge the technological literacy gap in consumer citizens, currently under way in Latvia. Our previous research on Nanoeducation has revealed a dramatically low level of scientific knowledge in Latvian consumers. The results stimulated the initiation of the project 'Adopting Intellectual Life Approach' (AILA) at Information Systems Management University (ISMA), Riga, Latvia.

The aim of this research, focusing on the challenges of nanotechnologies in the food and healthcare sectors, is to explore Latvian intellectual responsible consumers: their habits, new technology perceptions, preferences and values. Intellectual, responsible consumption is viewed as an identity project since we will study how Latvian citizens of the recession times construct their identity based on intellectual responsible consumption practices.

The beauty of AILA is that it reaches students from all study programmes – Natural sciences and Humanities, Information technologies and Business studies, Tourism and Management, Law and Environmental design, etc. It is an integrated skills project built around active learning methods to promote an active discussion-based approach to developing responsible scientific consumption, new emerging identities, and to offer an opportunity for students from a wide range of disciplines to learn about nanotechnologies, to explore their risks and benefits and to reflect on the place of nanotechnologies in their personal life, in their future professional practices, and the modern consumer society.

A questionnaire for the consumer survey comprising a set of questions was compiled based on a Likert Technique or scale and supported by the Consumer Culture Theory by Arnould and Thompson (2005). The main findings of the research are threefold as there were three teaching objectives of investigation: 1) what level of scientific understanding and risk-assessment would be sufficient for consumers; 2) whether consumers are provided with the necessary information; and 3) what more needs to be done in terms of public engagement.

The empirical results have proved a dramatical discrepancy between nanotechnology use in products that are already on the market and lack of nanotechnology understanding in a modern Latvian consumer society.

The question arises: does higher education today fulfill its role as a major catalyst to provide the necessary knowledge and relevant skills mix for our students to be prepared to join the highly technological global economy to ensure sustainable future for themselves, in the first place?

To find the answer to this question, we initiated a pilot research with the second-year students as an educational supplement, as a part of market analysis of a particular product that the students are learning how to make. The first question addressed to the respondents was whether they considered themselves 'intellectual consumers' (Fig.4).

Do you consider yourself an 'intellectual consumer'? (N=120)

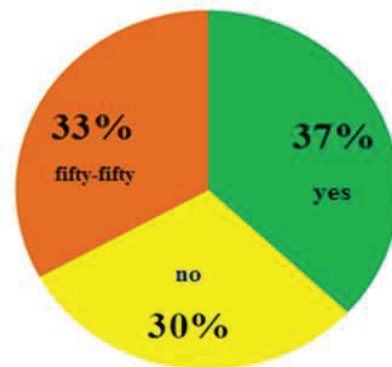


Figure 4. The amount of students considering themselves 'intellectual consumers'

As we can see from the pie chart, the answers divided almost evenly among the three groups of students-consumers with a slight shift toward 'intellectual consumer'. Thus, we had to investigate the reasons for 30% of students considering themselves non-intellectual consumers and 33% being doubtful about themselves (Fig.5).

Do you understand the 'labelling' information?

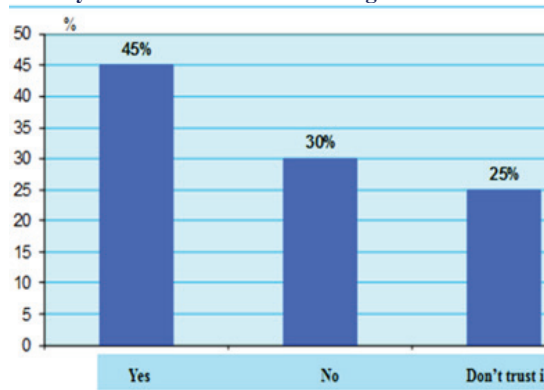


Figure 5. Student understanding of the 'labelling' information on products

As the bar graph demonstrates, the reasons behind such a low self-esteem and doubt are hidden behind the inability to cope with complex scientific inscriptions on the products revealing their ingredients – 30% of students confess not being able to understand all of them. Another 25% of students admit to be very skeptical about information accompanying products because many companies do not label nano ingredients or other unhealthy components for people to choose whether to buy such products or not (Fig.6).

On what information do you base your purchasing decisions?



Figure 6. The reasons influencing the purchasing decisions of students-consumers

As we can conclude from the pie chart, the major part of consumers is influenced by price in making their purchasing decisions. The second biggest category – 24% of consumers put their health on the first place, which is very reasonable.

Still, judging from the bar graph (Fig.7), the plurality – 62% - have no idea about products containing nano-ingredients, hence we can assume that they cannot make responsible decisions concerning their health.

Do you know what products contain nano-ingredients?

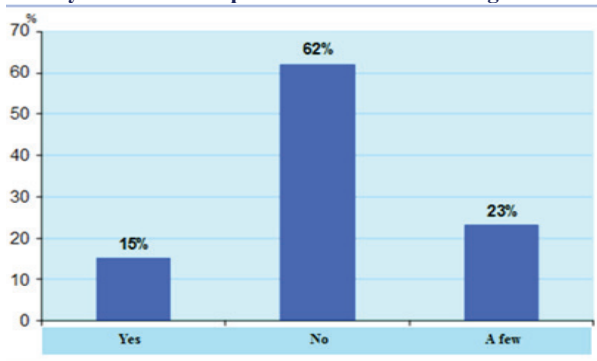


Figure 7. Students-consumers' awareness of the products containing nano-ingredients

Only 15% of students-consumers say that they know what products contain nano-ingredients. Though, if we sum up 15% and 23% (of shy students, perhaps) we will get that 38% who consider themselves intellectual consumers.

Among students-consumers who make an initial assessment of nanotechnologies, the plurality think the risks and benefits will be about equal, and the votes are divided about evenly between benefits and risks – 60% and 40% respectively (Fig.8).

If there is a choice: will you buy a product with 'nano' or without 'nano'? (initial assessment)

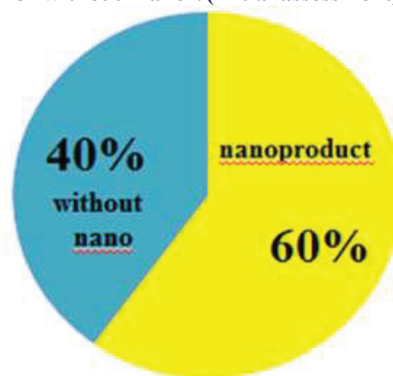


Figure 8. Student preferences of buying products with or without nano-ingredients *before* a general course on NTs

But when potential risks and benefits are outlined in the general introductory course into nanotechnologies, the greatest shift is toward the need of additional information – 74% or risk – 19% (Fig.9).

Impressions of the risks versus the benefits of nanotechnology (after a general course on NTs)

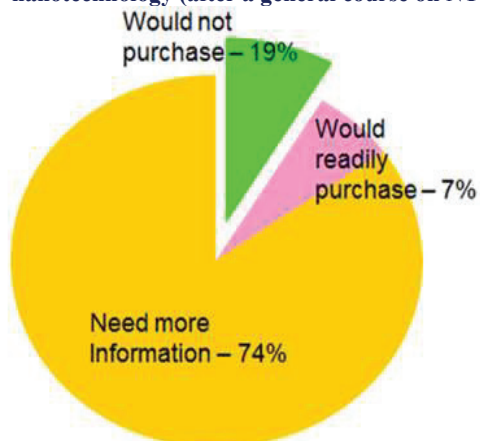


Figure 9. Student preferences of buying products with or without nano-ingredients *after* a general course on NTs

As we can see, life itself imposes the necessity of knowledge and education to make informed choices and responsible consumer decision making, thus, ultimately becoming intellectual consumers.

Conclusions

Since Nanotechnology is starting to play an extremely important role in the socio-economic development of all countries for the foreseeable future, it is imperative for higher education that emphasis be placed on producing a properly educated, qualified and trained specialists and consumers that can cater for the future of the society they live in.

It is at this crossroads and the questions raised by the scientific and technological advancements of our contemporary world, that we need to transform the society by educating responsible decision-makers and

contributing to the construction of new emerging identities, shaping scientific responsible consumption practices and lifestyles. Societal and technological arrangements co-evolve. This co-evolution happens most favourably in an educated, intellectual, and responsible society that is tolerant of change and divergent views. 'By

fostering an educated, intellectual society it creates conditions that foster responsible moral and social behaviour of the consumers and contributes to shaping intellectual responsible mankind' (Gomez-Mejia, 2008). Our choices today will determine what kind of tomorrow is likely to come.

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Tamara Lobanova-Shunina, Yuri Shunin

CONSUMER INSIGHTS INTO NANOTECHNOLOGIES: RESPONSIBLE CONSUMPTION MANAGEMENT

Summary

Consciously or unconsciously, the term 'nanotechnologies' is firmly entering the life of every consumer-citizen of the global community designating both relatively simple nanomaterials and goods that have already entered the market, and very complex technologies that are supposed to change radically the future of mankind. Applications based on today's basic research are expected to form the next industrial revolution. The unique properties of nanotechnology applications suggest potential to solve some of the most pressing social and business challenges, but they come with uncertainties and risks as all new technologies.

Taking advantage of technological progress and preventing adverse side-effects requires analysis, evaluation and guidance to ensure technology is developed in ways that benefits wider consumer society and every individual consumer on the planet. Unfortunately, general public lacks understanding and awareness of the basic properties, and sometimes even the existence of nanotechnologies and their implications linked to the consumption of nanoproducts. Moreover, a generally sceptical attitude among society groups prevails towards new technologies.

The general lack of public knowledge about nanoproducts that are already on the market in a full swing is likely to bring irrational and erroneous, potentially harmful, results. Therefore, modern technology requires educated work-force and responsible consumers and hence imperative for educated population.

Unfortunately, our previous research on Nanoeducation and Nanothinking (Lobanova-Shunina, Shunin, 2011) has revealed a dramatically low level of basic scientific knowledge and nanotechnology utilitarian value in Latvian students. The research results stimulated the educational component redesign at Information Systems Management University (ISMA), Riga, Latvia. Our mission had a focus on introducing changes into the curriculum to eliminate gaps in scientific knowledge of our students and to foster an active approach to developing responsible scientific consumption practices and to offer an opportunity for students from a wide range of disciplines to learn about nanoscience and nanotechnology, to explore these questions, and to reflect on the place of new technologies in the spheres of their major and in the global society.

Since Nanotechnology is starting to play an extremely important role in the socio-economic development of all countries for the foreseeable future, it is imperative for higher education that emphasis be placed on producing a properly educated, qualified and trained specialists and consumers that can cater for the future of the society they live in.

It is at this crossroads and the questions raised by the scientific and technological advancements of our contemporary world, that we need to transform the society by educating responsible decision-makers and contributing to the construction of new emerging identities, shaping scientific responsible consumption practices and lifestyles.

Societal and technological arrangements co-evolve. This co-evolution happens most favourably in an educated, intellectual, and responsible society that is tolerant of change and divergent views. 'By fostering an educated, intellectual society it creates conditions that foster responsible moral and social behaviour of the consumers and contributes to shaping intellectual responsible mankind' (Gomez-Mejia, 2008). Our choices today will determine what kind of tomorrow is likely to come.

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SCOPE OF IMPACT MEASUREMENT OF HIGHWAY NETWORKS' DEVELOPMENT AS PRECONDITION OF CHANGE MANAGEMENT IN AN ENTERPRISE: METHODOLOGICAL INSIGHTS

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Abstract

The paper generally still raises the aspects of measuring social and economic impact of transport corridor's development. 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. Critical areas of focus are introduced: assessment of so called direct benefits of investment into transport corridors and scope of so popular cost-benefit analysis. The question of an adequate, socially and economically reasonable assessment (based on simple mathematical technique) of transport corridors' development is raised – transport network effect is introduced.

Keywords: transport infrastructure, network, impact, logistics.

JEL Classification: O22, R11, R42.

Introduction

Transport policy in most countries has been characterised by liberalisation and harmonisation over the years. The fast growth of freight and passenger transport – driven to a large extent by economic decisions – contributes to growth and employment but also causes congestion, accidents, noise, pollution, increased reliance on imported fossil fuels, and energy loss. Infrastructure resources still are limited and any disruption in the supply chain (i.e. energy) has necessarily a negative impact on the global economy (Ghani, Laperte, Musmano, 2004; Stock & Lambert 2004; Пластуняк, 2004).

Without adequate measures, the situation will continue worsening and increasingly undermine trade competitiveness and the environment. To overcome such problems, transport systems need to be optimised by means of advanced logistics solutions for logistics plays a key role in ensuring sustainable mobility and also contributes to meeting other objectives, like a cleaner environment, security of energy supply, etc. (Корникова, 2004).

The problem introduced enabled to formulate *the object* of the article – logistic decisions as a precondition of adequate managing the international transport corridors. *The scientific problem* of the article – raise the necessity of socially and economically reasonable assessment of transport network development considering so called “network effect”.

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.

The *objective* of the article is to overlook the main effects generated by highway networks at the same time

calling for discussion if the former 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.

Challenges of modern transport systems: theoretical insights

Transport is an integral element of the logistics supply chain focuses on logistics mostly in freight transport and covers all modes of transport. The approach contains a vast variety of areas, such as pure modal logistics and multimodal logistics, and emphasizes the need for optimum complementarity of modes in an efficient and seamless transport system that can provide the best possible services to transport users. The growth of global economy does increase the need of transformation in the development of transport systems and infrastructure indeed. 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.). Scientists used to focus 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; Laksmanan, Chatterjee, 2005) as well as macroeconomic and microeconomic ones (Button, Henser, 2003). Over last twenty years most of the transport projects were completed. At present most authors still tend to emphasize the following circumstances that should be treated as the main challenges in the transport sector and

may stay as reasoning of the actuality of the problem discussed:

- formation of international transport corporations and integrated unions, operating at international or even global dimension;
- implementation of modern technologies in transportation process, enabling lower cost of distribution, at the same time increasing industrial productivity, competitiveness and profits;
- improvement of technical and economic characteristics of transport means;
- development of information technologies and e-commerce;
- formation of the network of international transport corridors;
- simplification of border – crossing procedures;
- Improvement of transport services.

However, constantly changing scope of international flows of freight (and passengers indeed) in transport networks complicate the optimization of performance measures so to get materials and people to the right place (serving for mentioned above purposes). The most important problems in managing and developing international transport corridors in macro level are closely related to those appearing in micro level and are undoubtedly concerned with logistic decisions in enterprises. Seeking to relate theory to practice, the authors analyzing relevant available data in many countries do conclude, that globalization of production and the corresponding supply chains *first* – increase the need for transportation. *Second* – competition between Europe, the US and the Far East, in particular, is becoming a significant factor and can have consequences on nodal points (especially seaports and airports) and infrastructure capacity. *Third* – ensures market and business integration through European co-operation with other major logistics centres in the world (e.g. with the US, Russia, Japan, China, India, Brazil). All these have significant impacts that go beyond transport itself, for instance, in terms of investment, employment and land use. (Ghiani, Laperte, Musmano, 2004). This optimistic approach might be reduced in scope: 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 not a formation of a single transport artery (Banister, Berechman, 2001; Zhang, Levinson, 2007; Huihui, Wang & Jin, 2011).

Road Network Paradox: Simple implications

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 researches 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) (Micevičienė, 2011).

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.

Intervention areas

As it was noticed in previous subchapters, international transport networks serve for society providing infrastructure and by that ensuring mobility, but the structural changes in economy at national and

supranational level stipulate congestion problems and inefficiency in the terms of growing costs, environmental problems and accident rate. The network effect does diminish so called positive impacts of the improved infrastructure. Naturally the developed network cannot be rebuild but several appropriate logistics decisions allow to achieve a compromise between three main objectives – capital reduction, cost reduction and serve for service improvement purposes. The question of the application of logistic principles to the problem of functioning of international transport corridors must be considered as twofold: analysis from the perspective of the infrastructure provider and from the perspective of infrastructure user. Fig. 1 summarizes the principal findings.

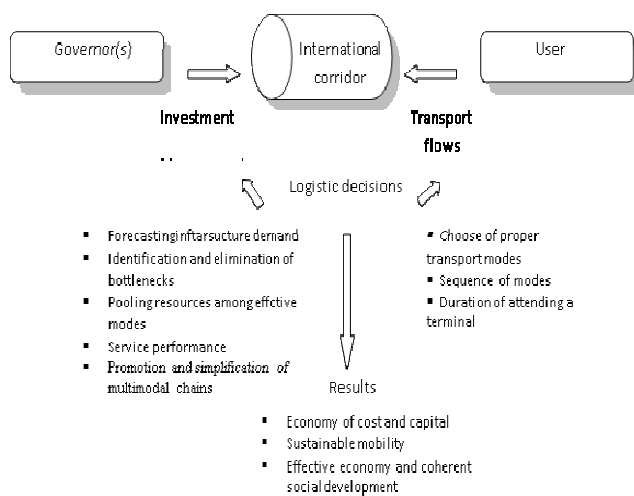


Figure 1. Enhancing viability of transport networks: problem solving guidelines

The governor or usually governors (represented by state authorities) of international transport infrastructure must ensure that the alternative cost of the investment are rather low – in other words, that the investment in the projects are used in the best way and satisfy the growing demand for the fast and reliable mobility. However, as international corridors do extend over the territory of several countries (except separate spaces of air and water that are of international significance) so the efforts to provide the right services – better to say the capacious infrastructure of the best quality for different transport modes – at the right time become complicated. For the reason the decision-making in the field relied on logistic approaches must be concerned with the following areas:

- *Utilization of infrastructure.* The quality of infrastructure is a key to logistics in transport. Infrastructure planning. Constructing new infrastructure is not an objective in itself. Current infrastructure use can be optimized by deploying efficient and sustainable logistics solutions. This includes fleet management, closer collaboration between business partners, and infrastructure managers, complete utilization of loading capacity, avoiding unnecessary empty runs, or pooling

resources across modes while respecting the world-wide laws on competition. However, when lack of suitable infrastructure clearly creates a bottleneck, this should be rectified. These facilities should employ modern technological solutions, such as advance informatics, and have quality infrastructure connections for co-modal solutions.

- *Recognition of quality.* Industry uses a number of performance indicators or benchmarks to assess and control its service quality. Closely targeted indicators can be used to control a wide variety of services and production phases. Establishing a set of common benchmarks would create uniformity in assessing logistics performance. Based on experience to be collected under this exercise, such a quality label could be extended to logistics chains using other modes. Such a label should entail minimum administrative procedures and be compatible with other existing certificates. It would constitute a strong marketing tool in a highly competitive environment. Such a label could include environmental and best practice
- *Identification of bottlenecks and their solutions.* The industry's role in developing freight transport logistics and the authorities' role in creating an appropriate framework for optimizing logistics require continuous co-operation and dialogue between the parties. At the moment there is no comprehensive picture of concrete obstacles (bottlenecks) that hinder freight transport logistics from developing faster. In line with the successful example offered by the "bottleneck exercise" in short sea shipping, a group of Focal Points should be established to carry out a continuous exercise of identifying and addressing concrete bottlenecks to freight transport logistics. These Focal Points would represent the Member States and industry (logistics service providers and customers). Apart from solving bottlenecks, they could share know-how, provide best practice, and give input to policy development.
- *Information and communications technology (ICT).* Tracking and tracing of cargo and passengers in all modes is a prerequisite for efficient logistics. The introduction of the satellite navigation systems, river information systems, long-range identification and tracking, automatic identification system, telemetric application for freight will have a substantially positive impact on managing transport flows in the corridors. Smart technologies should be introduced to avoid delays in the supply chain for security and other reasons. To ensure the integrity of the international market, it is important that national solutions do not become barriers to trade. Common standards widely accepted by manufacturers and operators, and synergies between different systems are the keys to making logistics more efficient. All development should be geared towards interoperability and common messaging within an open architecture between the players. A specific role for interoperability could be found in the

exchange of information between businesses and administrations, while the interconnectivity in business to– business and business–to–consumer logistics is also vitally important

- *Statistical data.* The logistics performance of the transport market needs to be monitored and benchmarked internally and against other continents. Statistical and other relevant indicators need to be developed to have a reliable picture of the situation and its evolution over time.
- *Promotion and simplification of multimodal chains.* Logistics flows, in particular multimodal flows, can be assisted by one–stop administrative shopping or single windows where all customs (and other related) formalities are carried out in a co–coordinated way while the customer only has a single contact point with the administrations and submits the necessary documents only once. Also physical checks would be co–coordinated and happen at the same time in the same place. The use of different modes in a single transport chain is a contemporary concept. This requires a change, first and foremost, of mentality. Responsibility and liability in international transport arise from international conventions. Often they provide different rules for different modes. This creates a complex multitude of regimes with subsequent friction costs in multimodal chains (COM(2006) 336 final).

Conclusive remarks

1. The interests of users of international transport networks are connected with low logistical costs, low investment level and improved quality of transportation services.

2. In most cases these expectations of the networks users and operators as well as outcomes of the infrastructure developed might be diminished. Investigating the effects of transport junctions most planners and evaluators often miss one important detail: transport infrastructure development often refers to a network of junctions rather than a formation of a single transport artery. So called “road network paradox” adding a road to a road network can actually *slow* traffic. As far as travel time economy remains the main benefit of transport infrastructure development, the question of its functionality is under discussion.

3. Logistic decisions to the functioning of international transport networks from the perspective of the infrastructure governor are concerned with the provision of corridor capability and involve strategic actions in utilization of networks, recognition of quality, promotion of multimodal changes and etc. These objectives may be solved by taking strategic, tactic and organizational decisions in choosing combination of transport modes and their sequence, duration of transportation and attending of nodes and etc.

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SCOPE OF IMPACT MEASUREMENT OF HIGHWAY NETWORKS' DEVELOPMENT AS PRECONDITION OF CHANGE MANAGEMENT IN AN ENTERPRISE: METHODOLOGICAL INSIGHTS

Summary

The functioning of international transport corridors is directly related to benefits in terms of personal mobility and economic activity. However, emerging trends in global market such as strategic and technological changes (such as globalization, introduction of new informatics technologies, e-commerce and etc.) require adequate logistic decisions in managing transport flows, formation of rational manufacture, distribution and supply strategies. In the light of modern changes in global logistic market, the authors of the article present the framework of decisions enabling improve functioning of international transport corridors which allow to benefit both – infrastructure users and providers.

Transport is an integral element of the logistics supply chain focuses on logistics mostly in freight transport and covers all modes of transport. The approach contains a vast variety of areas, such as pure modal logistics and multimodal logistics, and emphasizes the need for optimum complementarity of modes in an efficient and seamless transport system that can provide the best possible services to transport users. The growth of global economy does increase the need of transformation in the development of transport systems and infrastructure indeed. 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, constantly changing scope of international flows of freight (and passengers indeed) in transport networks complicate the optimization of performance measures so to get materials and people to the right place (serving for mentioned above purposes). The most important problems in managing and developing international transport corridors in macro level are closely related to those appearing in micro level and are undoubtedly concerned with logistic decisions in enterprises. Seeking to relate theory to practice, the authors analyzing relevant available data in many countries do conclude, that globalization of production and the corresponding supply chains *first* – increase the need for transportation. *Second* – competition between Europe, the US and the Far East, in particular, is becoming a significant factor and can have consequences on nodal points (especially seaports and airports) and infrastructure capacity. *Third* – ensures market and business integration through European co-operation with other major logistics centres in the world. This optimistic approach might be reduced in scope: 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; Huihui, Wang & Jin, 2011). However, a research group (<http://www.davros.org>) prove that adding a road to a road network can actually slow traffic. 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. The network effect does diminish so called positive impacts of the improved infrastructure. Naturally the developed network cannot be rebuilt but several appropriate logistics decisions allow to achieve a compromise between three main objectives – capital reduction, cost reduction and serve for service improvement purposes. The question of the application of logistic principles to the problem of functioning of international transport corridors must be considered as twofold: analysis from the perspective of the infrastructure provider and from the perspective of the infrastructure user. For the reason the decision-making in the field relied on logistic approaches must be concerned with the following areas: utilization of infrastructure, recognition of quality, identification of bottlenecks and their solutions, Information and communications technology (ICT), promotion and simplification of multimodal chains.

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HYBRID MULTIVARIATE ADAPTIVE REGRESSION SPLINES CREDIT RISK ASSESSMENT MODEL CONSIDERING BUSINESS CYCLE

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Abstract

The paper presents hybrid statistical enterprises classification model that combines multivariate adaptive regression splines and logistic regression methods. According to 11 financial ratios the model allows to predict the default of a company in 1 year. The hybrid approach allowed to increase the sensitivity of model from 90% to 92% while the overall classification accuracy remained the same 96,92% as in logistic regression model. In addition this model considers the business cycle effect on different industry sectors credit risk. Analyzing 5 factors of industry sectors performance the model highlighted the sectors that are very sensitive to the changes in macroeconomic conditions. That can help banks to make lending decisions aiming to reduce the possible loss.

Keywords: bankruptcy, business cycle, credit risk, statistical models.

JEL Classification: C38, C58, E32, G21.

Introduction

The credit risk management in commercial banks is very important due to its direct impact on bank's loan portfolio quality, interest income, profit and other activity parameters. The main problem is to develop instruments for the precise assessment of loan applicants credit risk level that is the main factor determining the lending decisions. Mostly the internal credit risk assessment models employ the statistical techniques to analyze the financial data and other information of enterprises. These models classify the loan applicants into different risk groups. But the consideration of economic environment in credit risk management is also very important because it has noticeable interrelation with the financial condition of companies. Usually banks evaluate the companies default probability for 1 year perspective. Lending of long term debts at current moment the financial condition of a company can be acceptable but after several years the stage of business cycle in the economy can change. That can negatively cause the changes in debtor's ability to meet the financial obligations for bank. The different industry sectors can have diverse sensitivity to the fluctuations in a country's economy and banks must have the models able to foresee the possible deterioration in different loan portfolio segments.

The object of this research is credit risk of enterprises. *The aim* of research is to develop the statistical enterprises classification model considering their financial condition and business cycle.

The tasks of research:

1. To present the main principles of credit risk assessment in commercial banks by using the internal ratings based approach.
2. To develop the statistical enterprises classification model for the credit risk assessment support in commercial banks.

The methods of this research consist of the analysis of scientific publications, the statistical analysis of enterprises financial data and macroeconomic indicators.

Statistical assessment of loan applicants credit risk

The credit risk is one of particular interest for banks and their supervisors because reliable assessment of the creditworthiness of debtors is an important precondition for the stability of a financial system as an inadequately high exposure to credit risk has been one of the leading sources for problems in financial institutions (Shen, Huang, Hasan, 2012). Commercial banks must have a system of rules, procedures, and regulations to ensure the minimizing of debtors' insolvency problem (Berrios, 2013). The results of scoring and rating systems predicting the probability of enterprises default effect the ability of firms to obtain credits (Ciampi, Gordini, 2013). So banks are interested in developing the accurate statistical credit risk assessment models to decide whether or not to grant credit to new applicants. Also when the credits are provided to strengthen the behavioural management of existing debtors, the behavioural credit risk models are used to estimate the changes of credit risk level. The purposes in both cases are to mine the bank database and classify the debtors into different risk groups. In general the models serve as a tool for establishing better bank risk management (Chen, Xiang, Liu, Wang, 2012). Mainly the credit scoring has gained attention as the credit industry benefits from timely decisions, reduction of possible risks, improved cash flow and proper credit collections (Mavri, Angelis, Ioannou, Gaki, Koufodontis, 2008).

The Basel II Capital Accord allowed banks to develop credit risk assessment models for 3 main risk

parameters: probability of default (PD), loss given default (LGD) and exposure at default (EAD). Depending to the credit risk assessment results the minimum amount of capital is regulated that financial institutions are required to hold against the possible losses (Loterman, Brown, Martens, Mues, Baesens, 2012). The current credit risk researches have largely focused on the estimation and validation of the PD parameter. The PD is a quantitative measure of the debtor's ability to meet the financial obligations. This creditworthiness of debtors or loan applicants is expressed by credit ratings in range from AAA to D. The ratings outline the likelihood of default on financial obligations and the expected repayment in the event of default (Becker, Milbourn, 2011). A debtor that is weakening in credit quality may pass through a succession of lower ratings before eventually defaulting, so a recent downgrade presages possible further deterioration (Figlewski, Frydman, Liang, 2012). The amount of capital required for banks varies with the credit rating.

The ratings should be informative about default probabilities without taking any other information into account (Becker, Milbourn, 2011). According to Hammer, Kogan, & Lejeune (2012), the bank rating system must be objective, transparent, accurate and generalizable. The objectivity means its reliance only on measurable characteristics. The transparency requires its formal explicit specification. The accuracy of developed model can be measured by the discrimination power rates that indicate various parameters of the classification quality. Modelling credit rating problems may involve minimizing the estimation error while ensuring some confidence or risk tolerance level for misclassification. The risk element relates to misclassifying bad credit as good such that any amount granted based therein will be lost. Large misclassifications are important as that would often result in the mispricing of risk (Odeh, Koduru, Featherstone, Das, Welch, 2011). And finally, the generalizability means the accuracy in ratings those companies which information was not used in developing the system.

The primary issue of credit risk assessment research has been to determine variables that significantly influence the PD. Typical loan databases in banks have many characteristic about each client's credit history. The high dimension of variables makes it operationally difficult to classify customers and identify the impacts of explanatory variables on estimating the PD. The relevance of explanatory variables is generally regarded as the most important consideration in the construction of credit risk assessment models. Most studies for the estimation of the probability of loan default have relied on arbitrary methods of explanatory variable selection (Marshall, Tang, Milne, 2010). The credit risk assessment is commonly based on the debtor's financial ratios, quality of assets, existing liabilities, borrowing and repayment history and overall business performance. In addition to the set of firm-specific variables banks use the industry-specific and macroeconomic factors as the important risk determinants. Before the credit risk assessment process, firms provide a considerable amount of supplementary information to the banks, such as

forecasts, supplementary statements and other internal reports. Banks evaluate a company's business position, industry and competitive factors, as well as the consequences of its strategic programs, and provide the assessment of a company's financial creditworthiness over the foreseeable future (Chou, Cheng, 2012). Figlewski, Frydman, & Liang (2012) found that adding macroeconomic factors into a specification with ratings-related variables produces a highly significant increase in explanatory power. The macroeconomic factors by the authors were grouped into three categories: general macroeconomic conditions (unemployment rate, inflation); direction of the economy (real GDP growth, growth of industrial production); financial market conditions (interest rates, stock market performance, corporate credit spreads).

A second important issue is the construction of credit risk assessment model. A large number of classification techniques for credit risk assessment can be found in literature. Dong, Lai, & Yen (2010) categorize these techniques into 5 groups: statistical models; operational research methods; artificial intelligence techniques; hybrid approaches; ensemble models. Statistical models comprise logistic regression, linear discriminant analysis, *k*-nearest neighbour, classification trees and other methods. Operational research methods include linear programming and quadratic programming. Artificial intelligence techniques include neural networks, support vector machine, genetic algorithm and genetic programming. Hybrid approaches combine different methods in order to improve the classification results. In case of ensemble models, the neural network ensemble is a typical example (Dong, Lai, Yen, 2010). The internal ratings based approach (IRB) allows banks to develop their own statistical models. Banks are responsible for determining PD and demonstrating the appropriateness of techniques used for measuring PD to banking supervisors (Genriha, Voronova, 2012).

In empirical credit risk modelling researches often the hybrid models reach higher classification accuracy than different statistical methods applied separately. The hybridization approach has been an active research area to improve the classification (prediction) performance over single statistical approaches. Tsai and Chen (2010) affirm that to develop a hybrid credit risk model, there are four different ways to combine the two techniques: (1) combining two classification techniques, (2) combining two clustering techniques, (3) one clustering technique combined with one classification technique, and (4) one classification technique combined with one clustering technique. Lin (2009) explored the classification performance using a two-stage hybrid modeling procedure with logistic regression and artificial neural networks (ANN). This study proposed three kinds of two-stage hybrid models. In stage I, influencing variables were selected using logistic regression. In stage II, the influencing variables were taken as the input variables of ANN. The overall classification accuracy of logistic regression and ANN models was 71,2% – 75,6%, while this rate of hybrid models was 77,0% – 80,8%. The research results of Tsai and Chen (2010) show that the highest overall accuracy of single classification was

79,42%, while hybrid approaches increased this rate to 83,44%. Bandyopadhyay (2007) in developed hybrid model integrated the information from the structural model as well as profitability of firms, liquidity risk, other firm specific supplementary information and macroeconomic factors to predict the corporate distress potential through a multivariate analysis. The empirical results revealed that hybrid model significantly improved the prediction of default probability and increased the classification accuracy ratio from 86% to 92%.

After PD the other important credit risk parameters are loss given default (LGD) and exposure at default (EAD). The LGD parameter measures the economic loss, expressed as a percentage of the exposure, in case of default. In other words, LGD is the proportion of the remaining loan amount that the bank would not be able to recover (Loterman, Brown, Martens, Mues, Baesens, 2012). It is usual for LGD to have a value between 0 and 1, where 0 means that the balance is fully recovered and 1 means the total loss of EAD. LGD can be used along with the PD and EAD to estimate the expected financial loss. The estimate of LGD, and therefore of the portfolio financial risk, is an integral part of the operational calculation of capital requirements to cover credit loss during extreme economic conditions. It is understood that LGD is likely to be time dependent, varying over the business cycle (Bellotti, Crook, 2012).

Banks measure the credit quality not only of individual applicants, but also of their loan portfolio. Various dimensions of credit risk at the portfolio level may be analyzed by statistical measures, such as default correlations, diversification ratio, probability distribution of losses, and credit value at risk. Banks may undertake evaluation of their credit portfolio with a view to test the quality of advances portfolio under stress conditions or at the time of adverse events. Common adverse events include economic recessions, interest rate increases, stock market decline, and foreign market downturns (Arora, 2012). This makes it attractive for a bank to develop or buy its own loan portfolio risk-assessment model, enhancing more accurate and efficient management of a bank's assets. This also enables them to appropriately price risk (Odeh, Koduru, Featherstone, Das, Welch, 2011). With more reliable prediction of the probability of loan loss, creditors attempt to evaluate the sectorial risk. For this, it is necessary not only to consider the degree of concentration in specific economic (or geographical) sectors but also the relationships between them. In business cycles different sectors are stressed differently so using the multifactor models for estimating economic capital it is useful to take into account the state and relationships between economic sectors (Semper, Beltran, 2011). The loan portfolio changes over time through the addition of new credits or through credits leaving the portfolio due to either default or full payment. The performance of loan portfolio can deteriorate for a variety of reasons: business cycle, financial crisis or inappropriate credit risk assessment. However, it can also improve over time. It is important to monitor the performance of a credit portfolio and detect changes as early as possible in order to be able to take appropriate actions (Gandy, 2012). In this case, portfolio losses

cannot generally be written as a linear function of the individual risk factors. However, in many problems there are several factors which interact across large parts of the portfolio to drive potential losses. These factors might be systematic factors representing macroeconomic variables, indices, or financial variables. The current credit crisis has highlighted the need for tools that help to understand the role of systematic risk factors in credit risk management (Rosen, Saunders, 2010). Bank revenues have a time variation pattern over the business cycle. Since revenues are a major determinant of bank capital and lending capacity, the time variation may have an impact on the real economy and may potentially amplify the business cycle. It is very important to understand how bank credit risk and revenues vary over time, and in particular, what are the relationships with key macroeconomic variables (Andersen, Berg, Jansen, 2012). The research of Fei, Fuertes and Kalotychou (2012) links portfolio credit risk with macroeconomic factors showing, that default risk tends to increase during economic downturns. Thus point-in-time methodologies that account for business cycles should provide more realistic credit risk measures than through-the-cycle models that smooth out transitory fluctuations (perceived as random noise) in economic fundamentals.

The ability of banks to assess credit risk together with macroeconomic factors influence the overall systemic risk in banking sector. An insolvent bank which was not able to manage the credit risk properly, may default on its interbank payment obligations to other banks and cause more banks to fail, thereby triggering a chain effect which is often called contagious bank failures. Also an adverse economic shock may cause significant losses in banks' correlated financial asset portfolios and result in simultaneous failures of multiple banks. These two systemic risk sources are not independent of each other and often exist at the same time (Hu, Zhao, Hua, Wong, 2012).

Empirical research methodology

The classification of companies into default and non-default groups was implemented by multivariate adaptive regression splines (MARS) and logistic regression (LR) methods. To improve the classification results the hybrid model was developed conjoining these statistical analysis techniques. The multivariate adaptive regression splines are a nonparametric procedure that makes no assumption about the underlying functional relationship between the dependent and independent variables. MARS constructs this relation from a set of coefficients and basis functions from the data. The independent variables, basis functions and the model parameters are combined to determine the class of a company. The mathematical model of MARS is:

$$Y = \beta_0 + \sum_{m=1}^M \beta_m h_m(X) \quad (1)$$

Where M is the number of non-constant terms in the model; $h_m(X)$ – the basis functions; β_m – the weights; β_0 – the intercept.

The logistic regression allows to predict the dependent variable $P(Y)$ in range $[0; 1]$. The mathematical model of LR is:

$$P(Y) = \frac{\exp\left(\beta_0 + \sum_{i=1}^n \beta_i x_i\right)}{1 + \exp\left(\beta_0 + \sum_{i=1}^n \beta_i x_i\right)} \quad (2)$$

Where x_i – the independent variables; β_i – the regression coefficients; β_0 – the intercept.

The data sample consists of 195 companies (145 not bankrupted and 50 bankrupted). The 11 financial ratios of 3 years were analyzed:

- Gross profit margin (GPM) = Gross profit / Net sales.
- Main activity profit margin (APM) = (Sales – (Cost of goods sold + Operating expenses)) / Net sales.
- Net profit margin (NPM) = Net income / Net sales.
- Return on assets (ROA) = Net income / Total assets.
- Return on equity (ROE) = Net income / Shareholders' equity.
- Current ratio (CR) = Current assets / Current liabilities.
- Working capital to total assets (WCA) = (Current assets – Current liabilities) / Total assets.
- Debt ratio (DR) = Total liabilities / Total assets.
- Long-term debt ratio (LDR) = Long-term debt / (Long-term debt + Shareholders' equity).
- Asset turnover (AT) = Net sales / Total assets.
- Retained earnings to total assets (UBA) = Retained earnings / Total assets.

Further the indexes at the abbreviations of financial ratios denote the year of the available data: 1 – the last year, 2 and 3 – the previous years (e.g. 2011, 2010 and 2009).

The hybrid statistical enterprises classification model

In the empirical study the MARS and logistic regression models were developed for the classification of companies into 2 groups: low (0) and high (1) risk of bankruptcy in the next 1 financial year.

The MARS equation of the low bankruptcy risk group:

$$ST(0) = -0,2266233855 + 0,2370247070 \cdot BF_1 + 0,0268583197534090 \cdot BF_2 - 0,214058110308261 \cdot BF_3 - 2,31211924651472 \cdot BF_4 + 1,27914838327317 \cdot BF_5 - 0,101888271406899 \cdot BF_6 - 0,599616496296886 \cdot BF_7 + 1,00291145843225 \cdot BF_8 + 0,0664933123712619 \cdot BF_9 + 0,435027694980797 \cdot BF_{10} - 0,2872030472 \cdot BF_{11} - 0,0291739471055231 \cdot BF_{12} \quad (3)$$

The MARS equation of the high bankruptcy risk group:

$$ST(1) = 1,22662338555876 - 0,237024707094566 \cdot BF_1 - 0,0268583197534090 \cdot BF_2 + 0,214058110308261 \cdot BF_3 + 2,31211924651472 \cdot BF_4 - 1,27914838327317 \cdot BF_5 + 0,101888271406899 \cdot BF_6 + 0,599616496296887 \cdot BF_7 - 1,00291145843225 \cdot BF_8 - 0,0664933123712619 \cdot BF_9 - 0,435027694980797 \cdot BF_{10} + 0,287203047288994 \cdot BF_{11} + 0,0291739471055231 \cdot BF_{12} \quad (4)$$

The basis functions of ST(0) and ST(1) models are given in Table 1.

Table 1

The basis functions of ST(0) and ST(1) models

| BF _i | Basis functions |
|------------------|---------------------------------------|
| BF ₁ | $\max(0; UBA_1 + 1,34350088326142)$ |
| BF ₂ | $\max(0; -1,34350088326142 - UBA_1)$ |
| BF ₃ | $\max(0; 0,181725208479310 - ROE_2)$ |
| BF ₄ | $\max(0; ROE_1 - 0,157559662373134)$ |
| BF ₅ | $\max(0; ROE_1 + 0,331967032482701)$ |
| BF ₆ | $\max(0; LDR_2 - 0,154025608509773)$ |
| BF ₇ | $\max(0; 0,154025608509773 - LDR_2)$ |
| BF ₈ | $\max(0; ROE_1 - 0,409103563474388)$ |
| BF ₉ | $\max(0; AT_2 - 0,894278549689584)$ |
| BF ₁₀ | $\max(0; APM_1 + 0,585223984830065)$ |
| BF ₁₁ | $\max(0; 0,0822812198773560 - WCA_2)$ |
| BF ₁₂ | $\max(0; AT_1 - 1,89461961678967)$ |

In the MARS model, functions $\max(0; x - t)$ and $\max(0; t - x)$ are used as decision points to determine which value will be used in the model at a given knot. The functions $\max(0; ROE_1 - 0,157559662373134)$ and $\max(0; -1,34350088326142 - UBA_1)$ can be denoted as BF₁ and BF₂. That means if $ROE_1 - 0,157559662373134 > 0$, then $BF_1 = ROE_1 - 0,157559662373134$; otherwise, if in the models $ROE_1 - 0,157559662373134 < 0$, then $BF_1 = 0$. Similarly, if $-1,34350088326142 - UBA_1 > 0$, then in the models $BF_2 = -1,34350088326142 - UBA_1$; otherwise, if the value $-1,34350088326142 - UBA_1 < 0$, then $BF_2 = 0$. The similar comparisons must be accomplished in all other knots of MARS model. The company is being classified into low or high bankruptcy risk group according to the higher value of dependent variable.

The logistic regression model:

$$Y = 4,5082 - 5,1912 \cdot GPM_1 + 28,0961 \cdot APM_1 + 24,8496 \cdot NPM_1 - 3,3699 \cdot ROA_1 + 1,0890 \cdot ROE_1 - 0,2079 \cdot CR_1 - 2,6060 \cdot WCA_1 + 6,0516 \cdot DR_1 + 5,8731 \cdot UBA_1 - 6,9159 \cdot GPM_2 - 20,6438 \cdot APM_2 + 10,8645 \cdot NPM_2 + 21,1961 \cdot ROA_2 + 1,4305 \cdot WCA_2 - 19,1355 \cdot DR_2 + 4,1088 \cdot LDR_2 + 2,8039 \cdot AT_2 - 9,2097 \cdot UBA_2 + 6,7497 \cdot GPM_3 - 13,7134 \cdot APM_3 + 44,7345 \cdot NPM_3 \quad (5)$$

The classification threshold of the LR model was set to 0,5. If $P(Y) \in [0; 0,5)$ a company was attributed into the low bankruptcy risk group. If $P(Y) \in [0,5; 1]$ a company was attributed into the high bankruptcy risk group.

The classification results of MARS and LR models are shown in the classification matrix (Table 2). The true positive (TP), true negative (TN), false positive (FP) and false negative (FN) rates were calculated.

Table 2

The classification matrix

| Predicted | Observed | |
|-----------|--|--|
| | 0 | 1 |
| 0 | TN _{MARS} = 144 TN _{LR} = 144 | FN _{MARS} = 11 FN _{LR} = 5 |
| 1 | FP _{MARS} = 1 FP _{LR} = 1 | TP _{MARS} = 39 TP _{LR} = 45 |

The correct classification rate (CCR), sensitivity (Se) and specificity (Sp) of models were measured to evaluate the classification accuracy and to compare the classification results (Table 3).

Table 3

The classification accuracy rates

| Rate | MARS | LR | Combined |
|------|-------|-------|----------|
| CCR | 93,85 | 96,92 | 96,92 |
| Se | 78,00 | 90,00 | 92,00 |
| Sp | 99,31 | 99,31 | 98,62 |

The correct classification rate indicates the proportion of correctly classified companies:

$$CCR = \frac{TP + TN}{TP + TN + FP + FN} \quad (6)$$

The sensitivity of model indicates the proportion of correctly classified bankrupted companies:

$$Se = \frac{TP}{TP + FN} \quad (7)$$

The specificity of model indicates the proportion of correctly classified non-bankrupted companies:

$$Sp = \frac{TN}{TN + FP} \quad (8)$$

The higher overall classification accuracy was reached by LR model (CCR = 96,92%). The correct classification of working companies (Sp) is the same 99,31%. LR model is able to classify the bankrupted companies more precisely, because the sensitivity of this model is 90%, while the MARS model correctly classified 78% of bankrupted companies. The misclassification of bankrupted companies was different so the developed MARS and LR models were combined to the aggregated classification algorithm (Figure 1).

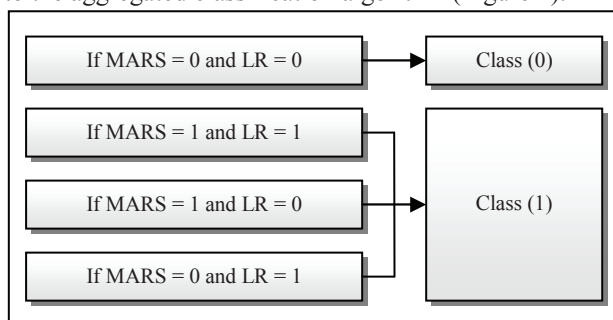


Figure 1. The aggregated classification algorithm

The overall accuracy remained the same as in the LR model but the sensitivity increased 2% and the specificity decreased 0,69% (Table 3). Usually it is more important for banks to classify correctly the risky clients because they can cause a higher loss due to not repaid credits. Otherwise, if a bank does not finance the solvent company the implied loss consists of only not earned interest income. So banks should combine the MARS and LR models for the better classification performance.

Consideration of business cycle

The developed hybrid MARS and LR model analyzes only the financial data of companies and predicts the bankruptcy according to this information. In addition, it is important to take into account the systematic risk of particular industry sectors. Almost all of them in Lithuania were significantly influenced by the economic downturn in 2009 and 2010.

The recent business cycle downturn in Lithuania is visible in Figure 2.

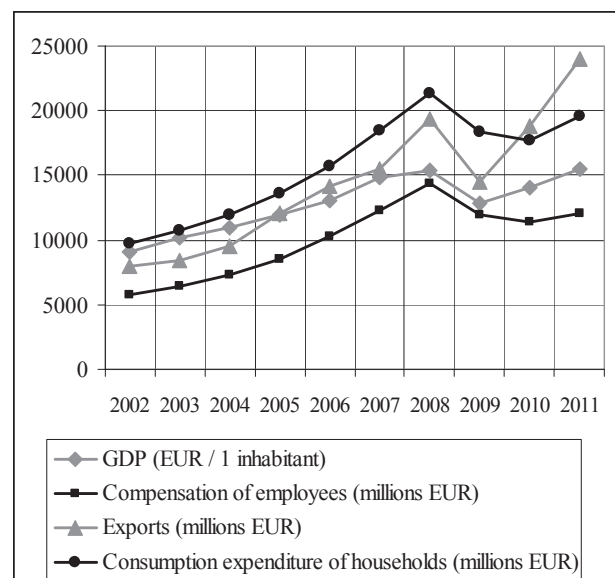


Figure 2. Business cycle in Lithuanian economy

The Lithuanian macroeconomic indicators in year 2008 were the highest as it was the top point of business cycle. Comparing to this basic period in 2009 the gross domestic product (GDP) for 1 inhabitant decreased 16,88% and exports decreased 25,09%. Compensation of employees in 2009 decreased 16,56% and consumption expenditure of households decreased 13,81%. In year 2010 these two rates compared to year 2008 were lesser by 20,58% and 16,92% accordingly.

The average proportion of bankrupted companies by industry sector in 2008 – 2011 is shown in Figure 3 (columns). The abbreviations of sectors (A – T) were set according to industry classification of Lithuanian Department of Statistics. The sectors were analyzed: agriculture, forestry and fishery (A), mining (B), manufacturing (C), water supply and waste works (E), construction (F), wholesale and retail, motor vehicle repair (G), transportation and storage (H), settlement and

feed services (I), information and communications (J), financial and insurance services (K), immovable property operations (L), profession, science and technical activity (M), administration services (N), health services (Q), recreation (R), other services (S).

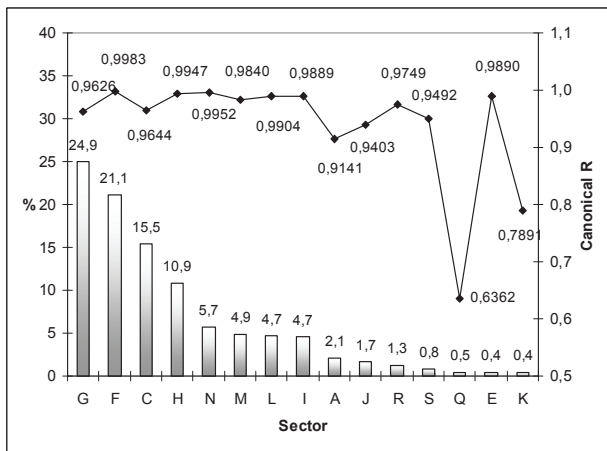


Figure 3. The average proportion of bankrupted companies by industry sector in 2008 – 2011 and canonical R values

The curve in Figure 3 indicates the canonical correlation coefficients between 5 macroeconomic rates of years 2003 – 2011 and the number of bankrupted companies in every sector. These macroeconomic indicators were analyzed: GDP per 1 inhabitant, compensation of employees, exports, gross fixed capital formation (investments), the final consumption expenditure of households and non-profit institutions serving households. The correlation is very strong in all sectors except the health services (Q) together with financial and insurance sector (K). The number of bankruptcies in these two sectors are not very sensitive to the changes in macroeconomic environment. The large part (61,55%) of bankrupted companies consists of 3 sectors: the wholesale and retail (G), construction (F) and manufacturing (C).

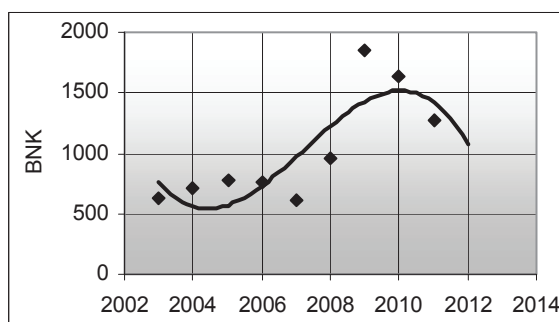


Figure 4. The number of bankrupted companies in all sectors

The polynomial regression models were developed for the modelling of bankrupted companies number (BNK) in these sectors. The independent variable (x) in the polynomial regression models is a year number.

The polynomial regression curves highlight the tendencies of bankrupted company's number changes.

Figure 4 shows that the number of bankrupted companies is very sensitive to the fluctuations of business cycle. In 2009 the number of bankruptcies in Lithuania increased by 92,69%. Figures 5 – 7 show the changes in number of bankrupted companies in wholesale and retail, construction and manufacturing sectors that together compound the larger part of bankruptcies.

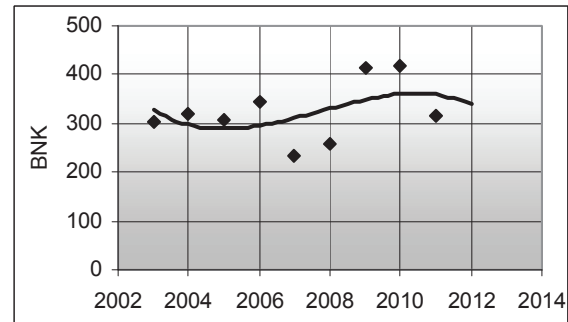


Figure 5. The number of bankrupted companies in wholesale and retail sector (G)

In 2009 the bankruptcies in wholesale and retail sector increased by 61,48% (Figure 5). The fluctuation of this number in relation to macroeconomic changes was measured calculating the variation coefficient:

$$V = \frac{\sigma}{\bar{x}} \cdot 100\% \quad (9)$$

\bar{x} – average number of bankrupted companies;

σ – standard deviation.

The variation coefficient in sector G is 20,15%, so the variation of bankruptcies in the context of business cycle is high.

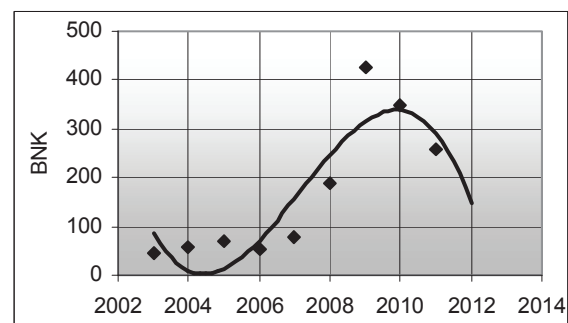


Figure 6. The number of bankrupted companies in construction sector (F)

The construction sector is very sensitive to the macroeconomic changes because the variation coefficient is 65,68% (Figure 6). This value of rate indicates the very high variation in number of bankrupted companies in recent years. The manufacturing sector is also very sensitive to the macroeconomic changes because its variation coefficient is 28,92% (Figure 7). These differences in variation indicators reflect the different risk for banks in particular industry sector. So it is worth to

implement the analysis that can help banks to identify the most risky sectors when the macroeconomic conditions of a country deteriorate. These results can be useful when in the credit risk assessment the estimated default probability of company is acceptable. But for the evaluation of long term debt perspectives the influence of macroeconomic fluctuations on credit risk changes is very important.

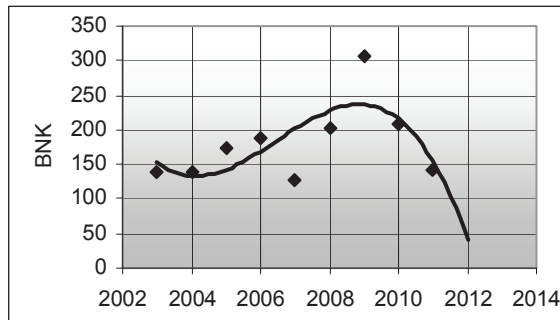


Figure 7. The number of bankrupted companies in manufacturing sector (C)

Sensitivity of industry sectors to business cycle was estimated analyzing 5 indicators:

- Number of bankrupted companies in a year (X_1).
- Revenue (X_2).
- Income before taxes (X_3).
- Profitability of main activity (X_4).
- Proportion of loss-making companies (X_5).

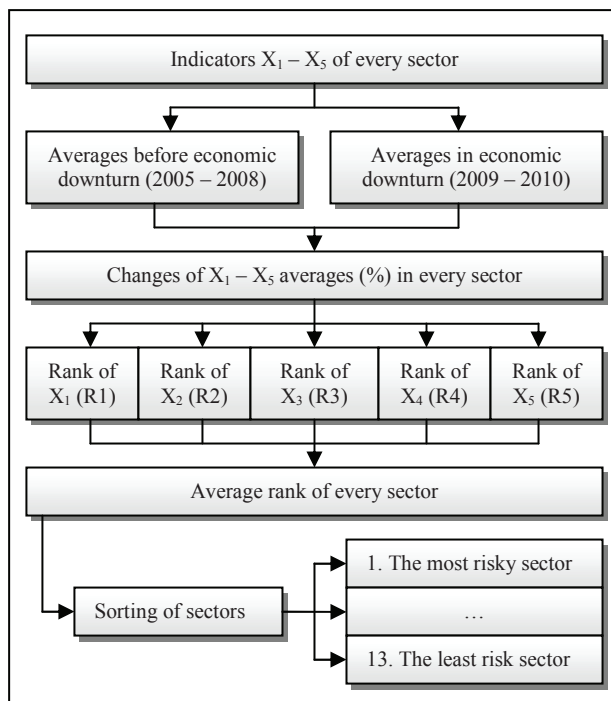


Figure 8. The rank attribution process

The average values before economic downturn (years 2005 – 2008), in downturn (years 2009 – 2010)

and changes of averages were calculated. According to changes of averages the ranks were attributed for the analyzed sectors. The rank attribution process is shown in Figure 8. Sectors S and K were not included into further analysis because of the unavailable statistical data.

Ranks attributed to other sectors according to 5 indicators and the calculated average ranks are given in Table 4.

Table 4

Ranks attributed to industry sectors

| Sector | R1 | R2 | R3 | R4 | R5 | Average rank |
|--------|----|----|----|----|----|--------------|
| F | 4 | 1 | 5 | 4 | 1 | 3 |
| I | 6 | 4 | 1 | 3 | 5 | 3,8 |
| L | 1 | 9 | 2 | 1 | 6 | 3,8 |
| R | 7 | 2 | 4 | 6 | 2 | 4,2 |
| N | 2 | 7 | 6 | 5 | 9 | 5,8 |
| J | 5 | 5 | 10 | 9 | 4 | 6,6 |
| G | 11 | 6 | 8 | 8 | 3 | 7,2 |
| H | 3 | 8 | 7 | 10 | 8 | 7,2 |
| B | 12 | 3 | 9 | 7 | 7 | 7,6 |
| D | 8 | 12 | 3 | 2 | 13 | 7,6 |
| C | 10 | 11 | 11 | 11 | 10 | 10,6 |
| E | 9 | 10 | 12 | 12 | 11 | 10,8 |
| Q | 13 | 13 | 13 | 13 | 12 | 12,8 |

The analysis results allowed to separate industry sectors into 3 risk groups:

- The most risky sectors are: construction (F), settlement and feed services (I), immovable property operations (L), and recreation (R).
- The medium risk sectors are: administration and services (N), information and communications (J), wholesale and retail (G), transportation and storage (H), and mining (B).
- The low risk sectors are: electricity, gas supply, air conditioning (D), manufacturing (C), water supply and waste works (E), and health services (Q).

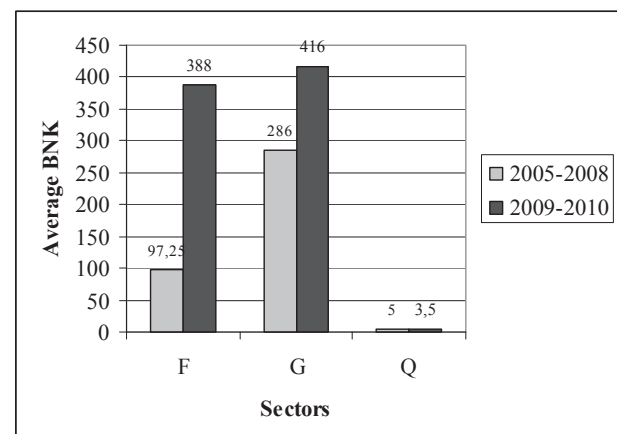


Figure 9. Average number of bankrupted companies in the highest, medium and least risk sectors

The compared indicators $X_1 - X_5$ of these groups affirmed the significant differences of values. In Figure 9 the average number of bankrupted companies (BNK) before economic downturn and in the downturn was compared in the highest, medium and least risk sectors.

In the construction sector the deterioration of macroeconomic conditions increased the average number of bankrupted companies 298,97%. In the middle of Table 4 the wholesale and retail sector is positioned which was influenced by the economic downturn not so significantly. The average number of bankrupted companies increased by 45,45%. The least risky is health services sector which was not negatively influenced by macroeconomic changes in 2009 and 2010. Conversely, this period reduced the average number of bankruptcies from 5 to 3,5 companies in a year.

Conclusions

1. This research affirmed the ability of hybrid statistical approaches to improve the enterprises classification accuracy comparing to the separate classifiers. In first stage the overall classification accuracy of single multivariate adaptive regression splines model was 93,85% and this rate of logistic regression model was 96,92%. In enterprises classification process the combination of these techniques allowed to increase the ability to classify the high credit risk companies correctly from 90% to 92%, while the overall accuracy remained the same (96,92%) as in logistic regression model.

2. The scientific literature analysis results allowed to conclude that in credit risk assessment process it is necessary to evaluate not only the financial data of companies but also the macroeconomic conditions of a country must be considered. Analyzing the bankruptcy statistics it emerged that almost all industry sectors in Lithuania were significantly influenced by the economic downturn in 2009 and 2010, except the health services together with financial and insurance sector. The financial results of financial sector also worsened but there were no significant raise in bankruptcies.
3. The values of variation coefficient indicated the different fluctuations in industry sectors' number of bankrupted companies. So it was concluded that the different sectors were affected by macroeconomic changes in Lithuania differently. That gave prominence to find quantitative measurements of business cycle effect on enterprises credit risk.
4. In this research the industry sectors credit risk level assessment process was suggested. According to 5 indicators the ranks were attributed for sectors and they were classified into 3 groups: the highest risk, the medium risk and the least risk sectors. Banks in lending decision making process the credit risk parameters of high risk sectors must evaluate more conservatively. Having the limited loan fund in banks it is advisable to make preferences for companies of low risk sectors group.

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Ričardas Mileris

HYBRID MULTIVARIATE ADAPTIVE REGRESSION SPLINES CREDIT RISK ASSESSMENT MODEL CONSIDERING BUSINESS CYCLE

Summary

The credit risk assessment problem is relevant for all banks because they always face with the risk that debtors will not be able to meet their financial obligations. The regulation of central banks allow to develop the own credit risk assessment models that expedite and simplify the work of credit experts in banks. Usually the main data analyzed in enterprises credit risk assessment is obtained from their financial reports. The financial condition of a company is one of the most important factors determining the ability to get credit. The profitability, solvency, capital structure and other ratios are analyzed by internal credit risk assessment models in banks that classify the loan applicants into different risk groups. But certainly the risk level of debtors in banks is related to macroeconomic conditions of a country. The economic downturn often leads to the worsened financial results of enterprises, insolvency, increase in bankruptcies. That directly associated with changes of debtors' credit risk level in banks, the financial condition of banks and their ability to finance new loan applicants. So the object of this research is credit risk of enterprises. The aim of research is to develop the statistical enterprises classification model considering their financial condition and business cycle. The tasks of research are to present the main principles of credit risk assessment in commercial banks by using the internal ratings based approach and to develop the statistical enterprises classification model for the credit risk assessment support in commercial banks. The methods of this research consist of the analysis of scientific publications, the statistical analysis of enterprises financial data and macroeconomic indicators.

The scientific publications analysis results mostly link the bank loan portfolio credit risk with macroeconomic factors showing, that default risk tends to increase during economic downturns. Such situation requires to tighten the lending policy in banks and to assess the credit risk more accurately. It is important to have the statistical models that enable to predict the company's bankruptcy and do not credit companies that have the high possibility to bankrupt. In business cycles different sectors are stressed differently, so using the statistical credit risk assessment models it is useful to take into account the risk of economic sectors and relationships with macroeconomic conditions. It is very important for banks to monitor the performance of a credit portfolio and detect changes as early as possible in order to be able to take appropriate actions. The applied various classification techniques for credit risk assessment can be found in scientific literature. It was ascertained that in empirical credit risk modelling researches often the hybrid models reach higher classification accuracy than different statistical methods applied separately. The hybridization approach has been an active research area to improve the classification performance over single statistical approaches. That stimulated to develop the hybrid statistical enterprises classification model analyzing the financial data of Lithuanian companies. In addition, for more reliable prediction of the probability of loan loss, this research attempts to evaluate the sectorial risk.

In first stage of empirical research the classification of companies into default and non-default groups was implemented by multivariate adaptive regression splines (MARS) and logistic regression (LR) methods. The data sample was used of 195 Lithuanian companies. The 11 financial ratios of 3 years were analyzed. The higher overall classification accuracy was reached by LR model (96,92%). The correct classification of working companies is the same – 99,31%. LR model is able to classify the bankrupted companies more precisely, because the sensitivity of this model is 90%, while the MARS model correctly classified 78% of bankrupted companies. To improve the classification results the hybrid model was developed conjoining these statistical analysis techniques. The overall accuracy remained the same as in the LR model but the sensitivity increased 2%. So banks should combine the MARS and LR models for the better classification performance.

In second stage of empirical research the systematic risk of particular industry sectors was estimated. Almost all of them in Lithuania were significantly influenced by the economic downturn in 2009 and 2010. The canonical correlation coefficients between 5 macroeconomic rates of years 2003 – 2011 and the number of bankrupted companies in every sector were calculated to evaluate this relation. The correlation is very strong in all sectors except the health services together with financial and insurance sector. The number of bankruptcies in these two sectors are not sensitive to the changes in macroeconomic environment. The large part (61,55%) of bankrupted companies consists of 3 sectors: the wholesale and retail, construction and manufacturing. Further the polynomial regression models were developed for the modeling of bankrupted companies number in these sectors. The fluctuation of this number in relation to macroeconomic changes was measured calculating the variation coefficients. The estimated differences in variation indicators reflect the different risk for banks in particular industry sector. So the sensitivity of industry sectors to business cycle was estimated analyzing 5 indicators: number of bankrupted companies in a year, revenue, income before taxes, profitability of main activity and proportion of loss-making companies. The analysis results allowed to separate industry sectors into 3 risk groups. The most risky sectors are: construction, settlement and feed services, immovable property operations and recreation. The medium risk sectors are: administration and services, information and communications, wholesale and retail, transportation, storage and mining. The low risk sectors are: electricity, gas supply, air conditioning, manufacturing, water supply, waste works and health services. Banks in lending decision making process the credit risk parameters of high risk sectors must evaluate more conservatively. Having the limited loan fund in banks it is advisable to make preferences for companies of low risk sectors group.

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ECONOMIC EVALUATION OF LITHUANIAN PUBLIC INDEBTEDNESS: RISKS AND OPPORTUNITIES

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Abstract

In this research the Lithuanian public debt changes in recent years were analyzed. From 2009 the significant annual increase of foreign and overall central government debt was observed. So the related to public debt economic indicators as central government revenues, expenses, interest payments statistics and sovereign ratings were estimated. The Lithuanian public debt data was also compared to the similar statistics of other European Union countries. The analysis results indicated that Lithuanian public debt ratio to GDP and 1 inhabitant is one of the least in EU. That shows the high opportunities to be able to repay debt, but the main risks are too low macroeconomic rates of economic activity and deteriorative demographic characteristics.

Keywords: macroeconomics, public debt, sovereign ratings, statistics.

JEL Classification: G24, H12, H62, H63.

Introduction

The public debt is the accumulated annual fiscal deficits incurred by central governments of a country over a particular period of time. Budget policy of governments is constrained by the need to finance the deficit. To finance the lack of revenues in case of higher expenses the governments issue securities that enable to borrow in the financial markets. Investors who purchase securities usually are banks, pension funds, insurance companies, individual investors, and others. Money from the sale of these securities enable sovereign governments to continue functioning. The interest on national debt is an obligatory part of government expenses for investors and the debt service burden is directly related to the absolute level of national debt and the interest rates.

According to Bach (2012), since the financial and economic crisis of 2008 – 2009 public debt in almost all OECD countries has increased significantly. In 2009 it was evident that some of the European countries were highly over-indebted. The Greece's budget deficit had reached 15,4%, Ireland's 14,3%, Spain's 11,2%, Portugal's 9,3%, and Italy's 5,3% of their respective GDPs in 2009 (Singala, Kumar, 2012). Also in other countries the fiscal deficits and public debt to GDP ratios in major advanced economies increased, and that raised concerns over fiscal sustainability. According to Collignon (2012) no universally accepted definition for sustainable fiscal policy exists, but scholars agree that exploding debt is not sustainable. Kontogeorga, Thanasis & Bellas (2012) maintain that a sustainable fiscal policy exists when the limitation of the state budget is satisfied over time. When state contributions are not sufficient for the coverage of expenditure, a deficit is created, leading to nonsustainable fiscal policy.

The object of this research is Lithuanian public debt. *The aim* is to evaluate economically the Lithuanian

public indebtedness highlighting the main risks and opportunities of debt repayment abilities.

The tasks of this research:

- To analyze the public debt economic intentions and implications.
- To implement the statistical analysis of Lithuanian public debt.
- To compare the Lithuanian public debt indicators to the EU countries.
- To highlight the main risks and opportunities of Lithuanian public debt repayment abilities.

The methods of this research consist of the scientific publications and the statistical data analysis.

Public debt economic intentions and implications

The public debts are incurred by governments through borrowing in the domestic and international markets to finance the fiscal deficit. When the government spends more than it receives collecting the taxes, that results in the use of some sort of security to cover the deficiency which normally lead external debt as source of fund (Udoka, Ogege, 2012). The public debt of countries is divided into two parts: the internal debt – for creditors who are within the country, and the external debt – for creditors who are based outside the country. Kontogeorga, Thanasis & Bellas (2012) mention that main source of increase of deficits, and thus of the public debt, arises from the primary deficits and interests. Other significant factors are also the debts of state banks, the deficits of organisations and public enterprises, the forfeitures of guarantees etc., which contribute to the expansion of the public debt. Any resort to government borrowing to cover public expenditure necessarily results in either the creation or the increase of the existing public debt.

In economic evaluation the public debt tends to be linked to a country's gross domestic product (GDP). Instead of the absolute value of the debt, the relation between public debt and GDP is being evaluated. The growing public debt as a share of GDP creates premises for a low level of credibility in financial markets. The sharp decline in GDP during the economic crisis bring an additional burden on the national budget that has to be managed with less money and even greater debt service (Hrebenciuc, 2013). Every government receives its revenue from the majority of the citizens of the state, namely taxpayers. Public debt, on the other hand, as government debt is also indirectly the debt of taxpayers (Kontogeorga, Thanasis, Bellas, 2012). Ultimately, the economy's private sector must accept more of a burden to reduce public deficits, either through tax increases or spending cuts. However, these measures should be implemented gradually out of consideration for economic development and political acceptance, as part of budgetary and debt regulations (Bach, 2012). The overmuch of governmental expenditure in long perspective slows the overall performance of economy, increasing governmental taxes and borrowing. High taxes for productive enterprises will increase the production cost and so decreasing the investments (Al-Qaisi, 2012). While a reduction of the public debt could result in an increase of the incentive of households and possibly allow for a tax cut as a result of saving interest payments which, in turn, improves the incentives for work and enterprises (Asal, 2012).

The sustainability of public debt is interpreted as the result of the interaction of fiscal policy with the economic environment (Collignon, 2012). The deficit process exhibits strong sustainability if revenues and expenditures flows are cointegrated with a cointegrating parameter equal to one. Weak sustainability implies that government expenditures are, on average, higher than government revenues. This, in turn, may create problems in the government's ability to market its debt in the long run, increasing the risk of default and thus the burden of interest payments on public debt (Tronzano, 2013). The problem of the budget deficit sustainability is as follows: the budget deficit determines the increase of the public debt, which will have to be paid in the future. If the interest rate to the public debt exceeds the economic growth rhythm, the public debt will increase faster than the gross domestic product. Eventually, this dynamics results in unsustainable deficits which require corrective actions (Socol, 2013). Sustainability does not mean budgets have to be balanced at all times, provided that temporary deviations from the sustainable rate are duly corrected. However, when deficits become excessive and debt explodes, a government's solvency is threatened. Borrowers are considered solvent as long as they can repay their debt and interest out of future revenue (Collignon, 2012).

The 2008 – 2009 recession has led to a large increase in debt to GDP ratios across the world. Governments face decisions about how much taxes should rise, or spending fall, to curtail and possibly reverse this increase in debt. One constraint on rapid debt correction is a concern about implications for short-term

aggregate demand, while another is the cost of enacting sharp and temporary changes in taxes or spending (Kirsanova, Wren-Lewis, 2011). Tracing the origins of the current crisis, one can easily notice that a lot of highly complex factors, developments and fiscal indiscipline among the member nations have contributed to aggravating the current debt crisis. Prominent among them include globalization of finance, availability of easy credit, high-risk lending and borrowing practices, international trade imbalances, real-estate bubbles, fiscal policy choices related to government revenues and expenses, approaches used by nations to bail out troubled banking industries and private bondholders, assuming private debt burdens or socializing losses (Rengasamy, 2012).

Often the countries are not just dealing with a public debt crisis, but, more importantly, the country's economic power is considered to be so weak that it cannot carry its debt burden (Brenke, 2012). But some countries have a history of default, and they even default when their debt (% of GDP) is not unmanageable. Once a country has tarnished its reputation of repayment, they are more likely to default again in the future (Hall, Snyder, 2012).

Analyzing the public indebtedness, one of the countries that recently faced with crisis is Greece. Rady (2012) highlighted the main domestic and international factors of Greece's crisis. The first domestic factor was the improper economic policy that involved high government spending and weak government revenues. The another factor is the trade policy in Greece before crisis. The evolution of Greece's external deficit reflects strong imbalances in the trade of goods, as well as a rapid deterioration of the incomes' balance. The third important domestic factor is the country's declining international competitiveness. Greece has been losing its international competitiveness due to high relative wages and low productivity. After internal reasons the main international factor is the financial crisis of 2008 that caused capital markets to become more illiquid, which had its impacts on the GDP growth and exports and hindered Greece's progress, as well as its access to financial assistance from other countries as the crisis spread to the Eurozone. The reliance on financing from international capital markets left Greece highly dependent on the global economic conditions (Rady, 2012).

According to Singala & Kumar (2012), Europe in general is beset with slow GDP growth rates, which result in a slower growth in tax revenues. Thus, the core problem in Europe is a lack of economic growth coupled with high wages, large subsidies, complex regulations and high taxes. Other concerns include the constantly aging population, increasing unemployment and growing globalization, which have allowed manufacturing and services to locate across the world. Further, as long as capital flows between countries remain unregulated in the euro area, current account imbalances are likely to continue (Singala, Kumar, 2012).

The important factors determining the country's economic strength and ability to repay debts are exports, foreign direct investments, economic activity of inhabitants, etc. The relationship between economic

growth and exports in developing countries has drawn the attention of researchers theoretically and empirically. The export is an engine to promote economic growth and hence increases the rewards of factors of production. Moreover, it opens opportunities for investments in the economies as a result of the higher level of income and saving, which leads in return to sectoral growth. Saad (2012) presented studies which test the causal relationship among economic growth, exports and external debt servicing. The results showed the causality between economic growth and external debt servicing, the causality running from exports to economic growth, and the causality running from exports to external debt. If export causes economic growth, then the achievement of a certain degree of development may be a prerequisite for the country to expand its exports (Saad, 2012). The extent of the export activity capacity of an economy is dependent on a number of factors: its production structure and thus the range of goods it can supply, its geographical proximity to significant sales markets, and also its size (Brenke, 2012).

Economic growth theory also has pointed out the importance of foreign direct investments (FDI) on growth. The market size, openness, human capital, infrastructure, exchange rate, efficient financial sectors, government debt, and growth rates as determinants in attracting FDI. For developing nations that are abundant in labor, increasing investment is always the obstacle since domestic savings are not enough to generate the required growth rates. This gap can be filled through foreign direct investment or foreign debt (Rady, 2012).

In addition, the ability of countries to repay debts is influenced by demographic factors, especially the ageing of the population is one of the main challenges across Europe. A rising dependency ratio is a concern in many countries which are facing an aging population, since it becomes difficult for pension and social security systems to provide for a significantly older, non-working population. Economic dependency rate is defined as a measure of the portion of a population which is composed of dependents (people who are too young or too old to work). The formula of economic dependency rate is:

$$EDR = \frac{IP + U}{E} \quad (1)$$

Where IP is total inactive population; U – unemployed population; E – employed population.

The Organization for Economic Co-operation and Development (OECD) predicted that in 2050 there could be on average more than 70 older and inactive people for every 100 workers in OECD countries, while currently this figure is 38. In Europe, this number may even approach 100. This fact would place enormous pressure on the public finances of countries. Considering the emigration of workforce from East-Europe to better paid jobs in developed countries, the East-European countries will face serious problems regarding this fact unless they will find a solution (Titu, Banu, Banu, 2012).

The public debt is related to the banking system stability. Moinescu (2013) maintain that banking system stability and public finances sustainability are mutually reinforcing each other in the long-term. The more

government borrows from the local market, the lower credit supply to nonfinancial corporations and households is. Fewer private sector financing puts additional pressure on GDP contraction, which degenerates later on in lower reimbursing capacity of debtors. Hence, that leads to both lower fiscal revenues and higher nonperforming loans in the banking sector. Furthermore, lower credit growth and, especially, deleveraging affects the liquidity in the economy, risking economic depression and, consequently, lower budget revenues (Moinescu, 2013). According to Fungačova & Jakubik (2013) the decaying macroeconomic environment was felt strongest in the banking sectors of emerging economies with strong linkages to the international financial system. The fact that emerging markets can be highly vulnerable to this kind of adverse macroeconomic development stems from much higher volatility of credit growth than in advanced economies (Fungačova, Jakubik, 2013).

The risk that a government's default will imperil the solvency of commercial banks causes a contagious reaction. The risk of bank failure was the main reason for the contraction in inter-bank lending after the global financial crisis of 2008 – 2009 and the migration of the inter-bank money market onto the balance sheets of central banks (Allen, Moessner, 2013). The public debt and banking crises are interlinked in several ways. First, the sovereign debt holdings of euro-area banks are so large that if some of the debt-stressed sovereigns (Greece, Ireland, Italy, Portugal, and Spain) cannot pay their debts, the banking system as a whole is insolvent. Second, the fiscal austerity of government to relieve the problems due to sovereign stress are slowing economic growth. To complete the circle, continued troubles for the banks could bankrupt certain sovereigns, already struggling under the weight of supporting the banks within their jurisdictions, and failure of these banks could lead to a broken credit channel, which in turn could become a further constraint on growth (Shambaugh, 2012).

The ability to repay public debts reflect the sovereign ratings. These ratings not only assess sovereignty's default risk but also determine the interest rates and borrowing costs in international markets. The three main credit rating agencies namely Moody's, Standard & Poor's and Fitch specify that their valuations of government risk are based on the analysis of an extensive group of economic, social, and political factors (Aguenaou, Abrache, 2013). The credit rating agencies (CRA) are firms that evaluate bonds and other securities issued by firms and governments to determine the likelihood that the issuer will repay the debt or can recover losses in the event of a default. CRA analyze information based on their own proprietary standards and then provide a single rating that communicates the risk associated with that security purchase. CRA also evaluate firms and governments in terms of their credit worthiness (Scalet, Kelly, 2012).

The research of Jadhav, Neelankavil & Andrews (2012) established relationships between sovereign debt ratings and macroeconomic as well as structural variables. Although a number of macro determinants about a sustainable level of national debt have been suggested, the ratings are not necessarily based on a

thorough analysis of the critical economic factors. The critical factors could include the economic structure of a country that is able to support the level of debt both in terms of ability to repay the debt as well as the resources available to service the debt. The political stability of a country is an important factor in determining probability of default. The marginal cost of debt often depends on the financial rating assigned to a country by rating agencies (Jadhav, Neelankavil, Andrews, 2012). The sovereign rating downgrades have statistically and economically significant spillover effects across countries and financial markets. The implication is that announcements made by rating agencies could trigger significant tremors in the markets (Rengasamy, 2012).

Research methodology

In the first section of empirical research the Lithuanian public debt statistics was analyzed: the central government debt (domestic and foreign), revenues, expenses, interest payments for investors, sovereign ratings.

The second section aims to compare the Lithuanian public debt data with the similar statistics of other European Union (EU) countries. To have the public debt indicators comparable they were recalculated to the relative rates to gross domestic product (GDP) and 1 inhabitant of every country. Also the exports and unemployment rates were used to evaluate the dependency of sovereign ratings from macroeconomic factors. The tax burden in the EU countries as one of the factors related to public debt was analyzed.

The third section summarizes the main risks and opportunities to Lithuania related to the changes in public debt that became visible after the implemented analysis.

The methods in the statistical data analysis process were applied: calculation of chain growth rates, basic growth rates, arithmetical averages, progressive averages, Pearson correlation analysis, association rules network and graphical analysis.

The statistical data of Lithuanian Statistics Department, Ministry of Finance, Bank of Lithuania, commercial banks, EUROSTAT and rating agency Standard & Poor's was used for analysis.

Lithuanian public debt statistics

The Lithuanian central government debt in the end of year 2012 was 12 491,7 millions EUR. In year 2003 it was 3 304,6 millions EUR, so in recent 10 years it increased by 9 187,0 millions EUR or 278% (Figure 1). According to the rapidity of central government debt increase, the 2003 – 2012 years period can be divided into 2 parts:

- In period 2003 – 2008 the average central government debt increase rate was 7,07% yearly.
- In period 2009 – 2012 the average central government debt increase rate was 28,03% yearly.

The change of Lithuanian central government debt is highly related to the change of foreign debt which in

years 2003 – 2012 increased by 380,61%. While the domestic debt in this period increased only 96,15%.

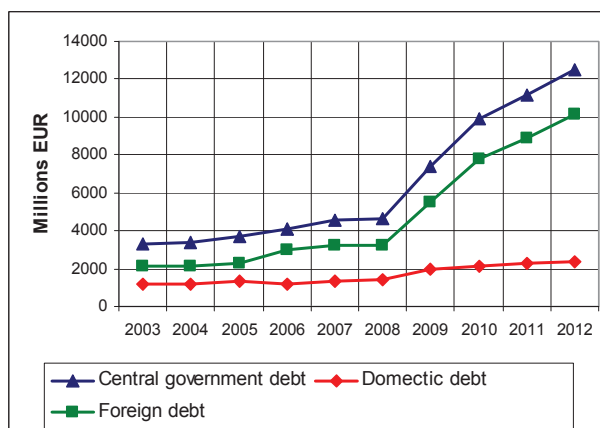


Figure 1. Central government debt of Lithuania

In 2003 – 2007 the revenues of Lithuanian central government was higher than expenses so the net balance of these indicators was positive (Figure 2). From 2008 the expenses of all further years exceeded the revenues. The government was not able to finance all expenditures of these years by revenues and the necessity to increase the public debt significantly arose. But the positive aspect is that the government in 2009 stopped the expansion of expenses. If in 2003 – 2008 in average the expenses of central government increased by 17,58% yearly, in 2009 – 2012 this annual average growth was only 0,38%. That partly compensated the lack of money in national budget when the revenues of central government declined by 16,36% in 2009. In 2010 – 2012 the revenues were constantly raising and in 2012 they were only 1,81% lesser than in the top of business cycle in 2008.

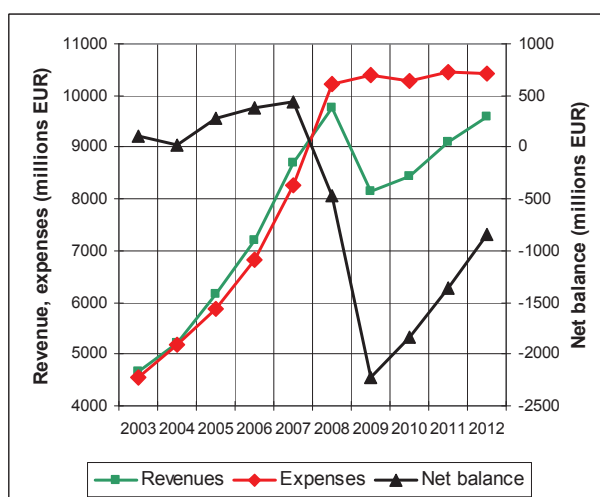


Figure 2. Lithuanian central government revenues, expenses and net balance

The proportions of Lithuanian central government expenses and revenues (%) in years 2008 – 2012 were calculated in Table 1. In this period the expenses exceeded the revenues every year.

Table 1
Net balance (NB) of central government expenses and revenues (%)

| Year | 2008 | 2009 | 2010 | 2011 | 2012 |
|--------|--------|--------|--------|--------|--------|
| NB (%) | 104,76 | 127,35 | 121,79 | 114,89 | 108,75 |

The highest deficit was observed in 2009 when expenditures of this year exceeded the revenues by 27,35%. In further years this negative proportion constantly decreases.

In years 2003 – 2008 the average interest payments for creditors of Lithuanian central government were 187,33 millions EUR yearly. But in years 2009 – 2012 the interest payments every year in average increased by 35,13% and in 2012 reached 677,91 millions EUR (Figure 3).

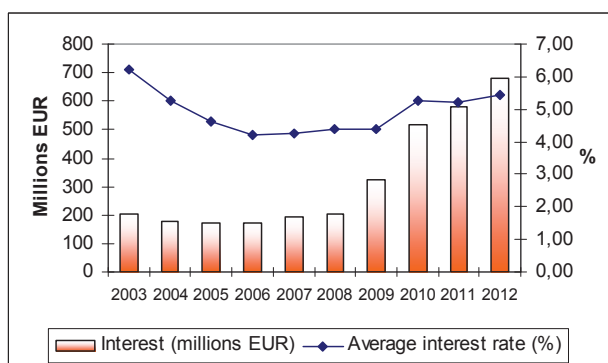


Figure 3. Interest payments of Lithuanian central government and average public debt interest rates

In Figure 3 the average interest rates of Lithuanian public debt were calculated dividing the interest paid in a year by central government debt and expressing the results in percentages. The highest average price of public debt was in 2003 when this rate was 6,23%. Until the year 2006 the average interest rate was constantly decreasing to 4,22%. But from 2009 the public debt price in average increased by 0,26% and in 2012 reached 5,43%.

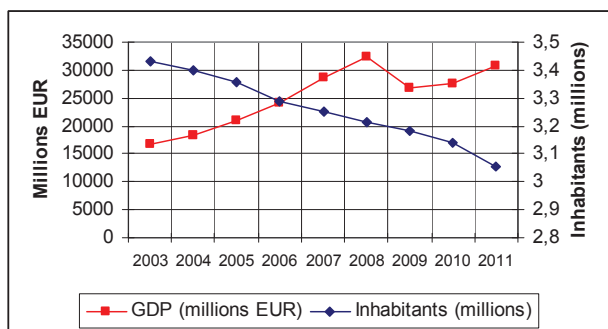


Figure 4. General domestic product (GDP) and number of inhabitants in Lithuania

It is important to evaluate the public debt relatively to general domestic product (GDP) and number of inhabitants in the country. The Figure 4 indicates the

recent business cycle in Lithuanian economy according to GDP fluctuations and declining number of inhabitants.

In years 2003 – 2008 the central government debt to GDP decreased from 19,94% to 14,34%, but amount of debt for 1 inhabitant increased from 963,03 EUR to 1 447,14 EUR. The cardinal negative changes if these rates began from year 2009 (Figure 5). In 2012 the central government debt to GDP reached 36,20% and the debt for 1 inhabitant in this year was 3 653,21 EUR. It is 2,52 times higher than in year 2008.

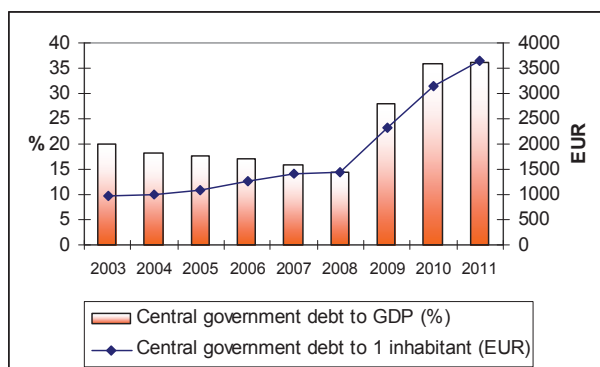


Figure 5. Lithuanian central government debt to GDP and 1 inhabitant

This significant growth of public debt had to influence the Lithuanian credit ratings that reflect the risk level of country to creditors. The Standard & Poor's credit ratings of Lithuanian long-term debt are given in Table 2.

Table 2
Standard & Poor's credit ratings of Lithuanian long-term debt

| Currency | 2003 | 2004 | 2005 | 2006 | 2007 |
|----------|------|------|------|------|------|
| LTL | A- | A- | A | A | A |
| EUR, USD | BBB+ | A- | A | A | A |
| Currency | 2008 | 2009 | 2010 | 2011 | 2012 |
| LTL | BBB+ | BBB | BBB | BBB | BBB |
| EUR, USD | BBB+ | BBB | BBB | BBB | BBB |

In 2004 – 2007 when public debt to GDP was in range of [15,92%; 18,38%], Lithuania had the higher investment ratings (A- and A) for long-term debt in national and foreign currency. While in 2009 – 2011 this rate increased to values in range of [27,88%; 36,20%]. The ratings reacted respectively and lower investment rating BBB for Lithuania was attributed. Despite the highest GDP value (32,4 billions EUR) and the least GDP to central government debt ratio in 2008 the rating was reduced from A to BBB+. That affirms the ability of rating agency to foresee the economic deterioration and proper understanding of economic cyclicity processes.

Lithuanian public debt in the context of EU countries

The Figure 6 shows the general government gross debt (% of GDP) of the EU countries in 2011. Together with the abbreviations of countries their Standard &

Poor's credit ratings for long-term debts in foreign currency are given.

Table 3

General government debt statistics of EU

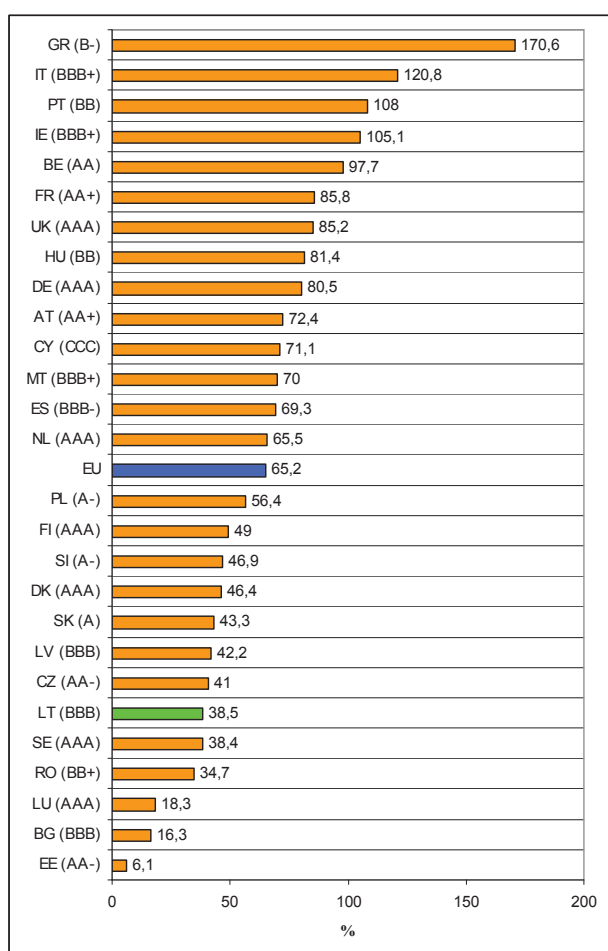


Figure 6. General government gross debt in year 2011 (% of GDP) and sovereign ratings

The average public debt of 1 EU country in 2011 was 65,2% of GDP. According to statistical data 14 EU countries had higher than average and 13 countries had lesser than average public debt. The highest rate is in Greece, Italy and Portugal, while the least rate was observed in Estonia, Bulgaria and Luxembourg. Lithuania is the 6th country with the least general government gross debt to GDP ratio, so in the context of the EU countries this statistics is favourable. The average public debt of 1 EU country is higher 26,7% compared to Lithuanian rate.

The average general government debt to 1 EU inhabitant in 2011 was 15 944 EUR. Lithuanian rate is also favourable because it was 3 875 EUR and it was the 4th best rate in the EU countries (Table 3). In Lithuania 1 inhabitant has 24,3% of average EU debt. Conversely, analyzing the average annual public debt change in 2009 – 2011, the debt growth rapidity was the 2nd highest in the EU after Romania. The statistical data of Cyprus was not available, in 2 countries (Estonia and Bulgaria) the decrease of debt was observed, and the average debt growth in the rest 24 EU countries was 15,34% yearly. So the Lithuanian rate was 2,15 times higher than average of EU countries with growing public debt.

| Debt to 1 inhabitant in 2011 | | Average annual debt change in 2009 – 2011 | |
|------------------------------|--------|---|--------|
| Country | EUR | Country | Δ (%) |
| IE | 37 032 | RO | 37,74 |
| BE | 32 883 | LT | 32,96 |
| GR | 31 443 | IE | 28,3 |
| IT | 31 293 | SI | 26,43 |
| FR | 26 421 | LV | 24,26 |
| AT | 25 868 | UK | 23,86 |
| DE | 25 547 | ES | 19,29 |
| UK | 23 944 | PT | 17,93 |
| NL | 23 566 | SK | 17,11 |
| DK | 20 100 | CZ | 13,93 |
| PT | 17 432 | FI | 13,86 |
| FI | 17 307 | LU | 13,01 |
| SE | 15 986 | DK | 11,92 |
| ES | 15 924 | SE | 10,87 |
| LU | 15 212 | GR | 10,54 |
| MT | 11 063 | PL | 10,03 |
| SI | 8 270 | FR | 9,3 |
| HU | 7 224 | BG | 8,98 |
| CZ | 5 798 | DE | 8,31 |
| SK | 5 547 | MT | 8,25 |
| PL | 5 001 | AT | 7,21 |
| LV | 4 154 | BE | 5,38 |
| LT | 3 875 | IT | 4,42 |
| RO | 2 083 | NL | 4,19 |
| BG | 853 | HU | -0,16 |
| EE | 720 | EE | -56,35 |
| CY | ... | CY | ... |

The correlation coefficients were calculated to measure the dependency between sovereign ratings, analyzed public indebtedness rates and macroeconomic indicators (GDP to 1 inhabitant, exports to 1 inhabitant and unemployment rate). The GDP and exports influence the ability of a country to repay debts, so their relation to sovereign ratings can show the importance of these factors to a country's solvency. The unemployment rate reflects the economic activity of a country that is also the important factor of the ability to repay debts. The Standard & Poor's 23 ratings scale {AAA, AA+, AA, AA-, ..., C, SD, D} was denoted by ranks {1, 2, ..., 23}. Also countries were sorted according to the public indebtedness rates and macroeconomic indicators. The ranks were attributed to every country: {1 – the best rate, ..., 26 – the worst rate}. The correlation matrix is shown in Table 4. The Pearson correlation coefficients in Table 4 are denoted as r . The abbreviations of data were used:

- RTN – the sovereign rating.
- DEI – the public debt to 1 inhabitant in 2011 (EUR).
- DEC – the average annual debt change in 2009 – 2011 (%).
- GDP – the gross domestic product to 1 inhabitant (EUR).
- EXP – exports of goods and services to 1 inhabitant (EUR).
- UNE – the unemployment rate (%).

Table 4

Pearson correlation matrix

| Correlations | | | | | | | |
|--------------|------|--------|---------|-------|---------|--------|--------|
| | | RTN | DEI | DEC | GDP | EXP | UNE |
| RTN | r | 1 | -0,22 | 0,23 | 0,67** | 0,68** | 0,73** |
| | Sig. | | 0,27 | 0,26 | 0,00 | 0,00 | 0,00 |
| | N | 26 | 26 | 26 | 26 | 26 | 26 |
| DEI | r | -0,22 | 1 | -0,20 | -0,73** | -0,41* | -0,19 |
| | Sig. | 0,27 | | 0,34 | 0,00 | 0,04 | 0,36 |
| | N | 26 | 26 | 26 | 26 | 26 | 26 |
| DEC | r | 0,23 | -0,20 | 1 | 0,16 | 0,23 | 0,32 |
| | Sig. | 0,26 | 0,34 | | 0,44 | 0,26 | 0,11 |
| | N | 26 | 26 | 26 | 26 | 26 | 26 |
| GDP | r | 0,67** | -0,73** | 0,16 | 1 | 0,78** | 0,52** |
| | Sig. | 0,00 | 0,00 | 0,44 | | 0,00 | 0,01 |
| | N | 26 | 26 | 26 | 26 | 26 | 26 |
| EXP | r | 0,68** | -0,41* | 0,23 | 0,78** | 1 | 0,60** |
| | Sig. | 0,00 | 0,04 | 0,26 | 0,00 | | 0,00 |
| | N | 26 | 26 | 26 | 26 | 26 | 26 |
| UNE | r | 0,73** | -0,19 | 0,32 | 0,52** | 0,60** | 1 |
| | Sig. | 0,00 | 0,36 | 0,11 | 0,01 | 0,00 | |
| | N | 26 | 26 | 26 | 26 | 26 | 26 |

** . Correlation is significant at the 0,01 level (2-tailed).
 * . Correlation is significant at the 0,05 level (2-tailed).

The correlation analysis has shown that the sovereign credit rating does not depend on the public debt amount to 1 inhabitant of a country. The debt change rate also has slightly influence on ratings because the correlation coefficient is only 0,23. The more important for credit ratings are macroeconomic conditions of a country because the correlation coefficients between ratings, GDP, exports and unemployment rate are in range [0,67; 0,73], what point the significant importance. The significant reverse correlation was observed between GDP and the public debt to 1 inhabitant (-0,73). Because the higher ranks in analysis mean the higher GDP and lesser debt, the negative value of correlation coefficient shows that countries with higher GDP tend to have higher indebtedness. The analysis results show that GDP, exports and unemployment rates are also significantly interrelated. These three macroeconomic indicators have tendency to improve and deteriorate together that has the direct impact on a country's rating.

Considering that countries repay their public debts and pay interest from collected taxes it is worth to analyze the tax burden of the EU countries. The total receipts from taxes and social contributions as the percentage of GDP in 2011 are given in Figure 7.

Table 5

Pearson correlation coefficients

| Correlations | | | | | | | |
|--------------|------|---------|------|--------|---------|---------|--------|
| | | RTN | DEI | DEC | GDP | EXP | UNE |
| TXB | r | -0,63** | 0,66 | -0,45* | -0,79** | -0,56** | -0,6** |
| | Sig. | 0,00 | 0,00 | 0,02 | 0,00 | 0,00 | 0,00 |
| | N | 26 | 26 | 26 | 26 | 26 | 26 |

** . Correlation is significant at the 0,01 level (2-tailed).
 * . Correlation is significant at the 0,05 level (2-tailed).

The tax burden in Lithuania is the least all over the European Union. The total receipts of government from taxes and social contributions are only 26,4%, while the EU average is 36,6%. The countries with the highest tax burden are Denmark, Belgium, France, Sweden and

Austria where the total receipts of governments from taxes and social contributions are 43,7% – 48,6% of GDP. The Pearson correlation coefficients between tax burden (TXB) and public indebtedness rates together with macroeconomic indicators are given in Table 5.

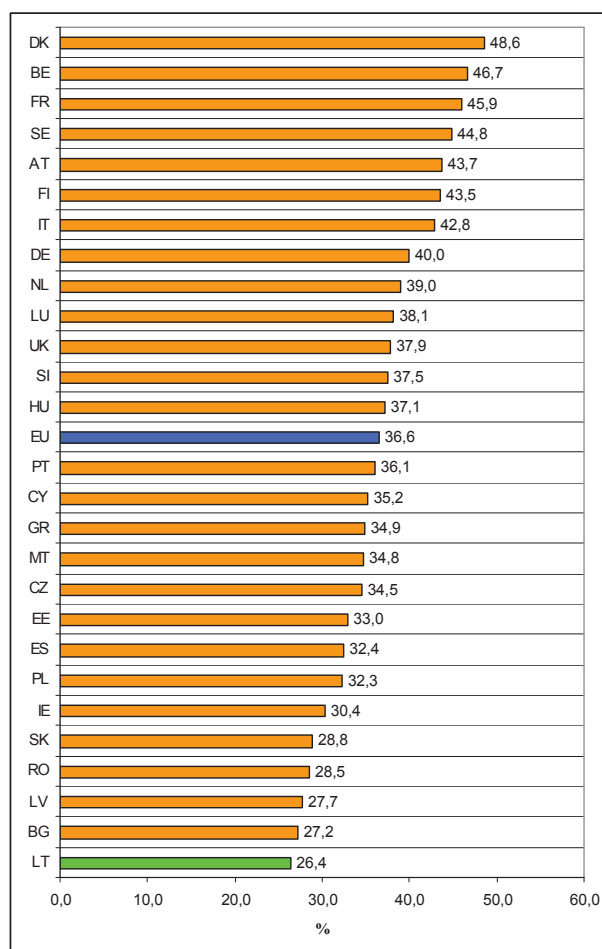


Figure 7. Tax burden in the EU countries (year 2011)

In the correlation analysis process the countries were sorted according to their tax burden. The highest rank obtained the country with the least tax burden (Lithuania). For other countries the lower rank means the higher tax burden. The analysis results allow to maintain that the higher ratings tend to obtain countries with higher tax burden ($r = -0,63$). The direct correlation was noticed in tax burden and amount of public debt to 1 inhabitant: the higher debts are in countries with the higher tax burden ($r = 0,66$). The significant negative values of correlation coefficients between TXB and {GDP, EXP, UNE} point that countries with higher tax burden tend to have higher GDP, exports and lower unemployment rates.

The association rules network was drawn to visualize these relations (Figure 8). The public debt (DEBT), gross domestic product (GDP) and exports (EXP) for 1 inhabitant rates were used. The nominal qualitative variables were used to separate the EU countries according to these three rates. The medians were calculated that divide countries into high and low rates groups.

DEBT: median is 15 955 EUR, low debt group [720 EUR; 15 955 EUR], high debt group [15 955 EUR; 37 032 EUR].

GDP: median is 21 410 EUR, low GDP group [5 225 EUR; 21 410 EUR], high GDP group [21 410 EUR; 83 277 EUR].

EXP: median is 10 807 EUR, low exports group [2 455 EUR; 10 807 EUR], high exports group [10 807 EUR; 146 976 EUR].

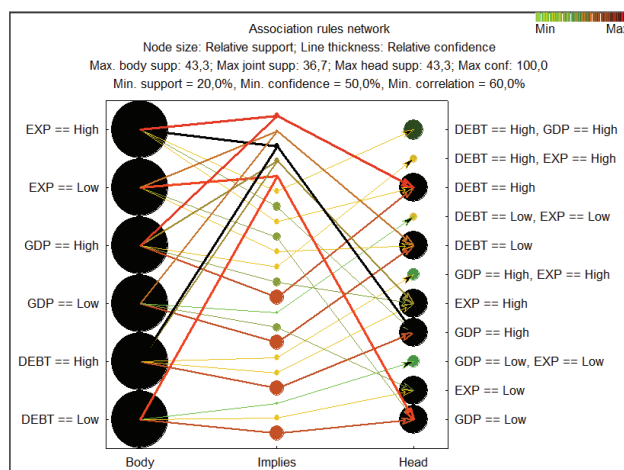


Figure 8. Association rules network

The summary of association rules is shown in Table 6.

Table 6

Summary of association rules

| No. | Body | | Head |
|-----|-------------|---|------------------------|
| 1. | DEBT = Low | → | GDP = Low |
| 2. | DEBT = Low | → | EXP = Low |
| 3. | DEBT = Low | → | GDP = Low, EXP = Low |
| 4. | DEBT = High | → | GDP = High |
| 5. | DEBT = High | → | EXP = High |
| 6. | DEBT = High | → | GDP = High, EXP = High |

| No. | Support % | Confidence % | Correlation % |
|-----|-----------|--------------|---------------|
| 1. | 36,67 | 84,62 | 84,62 |
| 2. | 26,67 | 61,54 | 61,54 |
| 3. | 23,33 | 53,85 | 64,72 |
| 4. | 36,67 | 84,62 | 84,62 |
| 5. | 26,67 | 61,54 | 61,54 |
| 6. | 26,67 | 61,54 | 73,96 |

For countries with low public debt the low GDP and exports are typical (correlations 61,54% – 84,62%). The highly indebted countries typically have strong economies, because the correlations in association rules of high GDP and high exports are in range [61,54%; 84,62%].

Evaluation of Lithuanian public indebtedness risks and opportunities

According to the accomplished statistical analysis results Lithuania can be classified into low public debt to 1 inhabitant group (4th place in the EU list) that has lower GDP (22nd place in the EU list) and exports (19th place in

the EU list) rates. Due to the imperfect macroeconomic indicators the growth of public debt is quite risky.

The another problem is that the EU and other foreign support has very significant part in Lithuanian national budget. In 2012 this support was 23,09% of national budget, in 2009 – 2011 this proportion was 12,86% – 24,46%. So really without support the government is able to get less revenues than is national budget. The support is also increases the opportunity to reduce the public debt growth because the significant part of government expenses are financed by support.

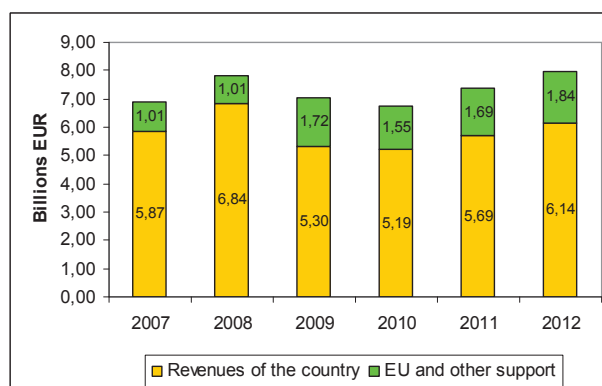


Figure 9. National budget of Lithuania

The part of new debts in Lithuania are used to refinance the preceding debts. The annual net debt increase in 2009 – 2012 is shown in Table 7. Until 2011 the declining public debt growth rapidly from 2,76 to 1,1 billions EUR was observed, but in 2012 the debt increased by 1,49 billions EUR.

Table 7

New and repaid debt (billions EUR)

| | 2009 | 2010 | 2011 | 2012 |
|---------------|------|------|------|------|
| New debt | 4,00 | 3,44 | 1,78 | 3,27 |
| Repaid debt | 1,24 | 1,14 | 0,68 | 1,78 |
| Debt increase | 2,76 | 2,31 | 1,10 | 1,49 |

The opportunity to reduce the public debt is in the least tax burden of Lithuania in the EU. Depending on this criteria the country is attractive for investors. Forming the proper business environment and investing into the economic promotion it is possible to stop the growth of public debt which is one of the least in the EU. In other side the negative factor is decreasing number of inhabitants that earn income to the national budget.

Table 8

Bank deposit and treasury note interest rates in 2013

| Term | Average deposit interest (%) | Deposit interest progressive average (%) | Treasury note interest (%) |
|---------|------------------------------|--|----------------------------|
| 1 year | 0,91 | 1,59 | 0,5 |
| 2 years | 1,06 | 1,79 | 1,2 |
| 3 years | 1,22 | 1,89 | 1,5 |

The analysis of central government debt changes has shown that in years 2009 – 2012 only foreign debt of Lithuania grew markedly (Figure 1), while the growth of domestic debt was very inconspicuous. The government borrow from citizens insufficiently. Deposits in commercial banks in 2013 1st quarter were 13,25 billions EUR. Also commercial banks have surplus of deposits because the interest rate are very low (Table 8).

The average interest rates for 1, 2 and 3 years deposits of 10 commercial banks were calculated. It is worth to keep money in banks that pay higher interest, so banks with higher than average interest rates were selected and the progressive averages of deposit interest rates were calculated. Comparing these averages with treasury notes interest rates it can be seen that securities are not attractive (Table 8). The interest rates of treasury notes are notably lower than progressive average of deposits in banks. Increasing the treasury notes interest rates it is possible to increase borrowing inside the country and the commercial banks will have the reduced surplus of deposits.

Conclusions

1. The public debt allows for governments to compensate the annual fiscal deficit when the contemporaneous government expenses exceed the tax receipts. But when the economic conditions in a country deteriorate, the high public indebtedness increase the risk of insupportable debt burden that can lead to a country's default.

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2. The empirical research has pointed that Lithuanian public debt to GDP is the 6th least in EU. The average public debt of 1 EU country is higher 26,7% compared to Lithuanian rate. But the main problem that in 2009 – 2012 the average Lithuanian central government debt increase rate was 28,03% yearly. However, the government was able to reduce the overrun of national budget from 27,35% in 2009 to 8,75% in 2012. The decreasing fiscal deficit permits to reduce the borrowing but the necessity to refinance the preceding debts and interest payments enlarges the risk of public debt growth.
3. The association rules analysis has shown that counties with high GDP and exports tend to have higher public debts. The opportune situation that Lithuania was classified into low debt group but due to the imperfect macroeconomic indicators the growth of public debt for the country is quite risky. That reflects the lower investment rating BBB.
4. It is positive that EU and other foreign support significantly complement the national budget of Lithuania, without this money flow the public debt should be higher. The opportunity to reduce the public debt is in the least tax burden of Lithuania in the EU, that stimulates investments. The negative factor is decreasing number of inhabitants that earn income to the national budget. Also the government borrow from citizens insufficiently because the interest rates of treasury notes are not attractive. Increasing the treasury notes interest rates it is possible to increase borrowing inside the country.

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Ričardas Mileris, Sandra Jakštienė

ECONOMIC EVALUATION OF LITHUANIAN PUBLIC INDEBTEDNESS: RISKS AND OPPORTUNITIES

Summary

In case of fiscal deficit the countries meet the problem how to finance expenditures if the revenues of a year are insufficient. Then the necessity to borrow in the financial markets arises, increasing the public debt which is the accumulated annual fiscal deficits incurred by central governments of a country over a particular period of time. When the governments issue the securities, investors (mainly banks, pension funds, insurance companies, individual investors) can buy these securities allowing governments to use their money for the state purposes. The investors expect to have the financial benefits getting interest over the period of securities they hold. In economic crisis of 2008 – 2009 many countries faced with the significant growth of their public debt. Some European countries (Greece, Ireland, Portugal, Italy) became highly over-indebted. The fiscal deficits and public debt to GDP rates were unsatisfactory what raised the concern of fiscal sustainability. So in this research the situation in Lithuania concerned with public debt in the context of European Union countries was estimated.

The object of this research is Lithuanian public debt. The aim is to evaluate economically the Lithuanian public indebtedness highlighting the main risks and opportunities of debt repayment abilities. The tasks of this research are to analyze the public debt economic intentions and implications, to implement the statistical analysis of Lithuanian public debt, to compare the Lithuanian public debt indicators to the EU countries, and to highlight the main risks and opportunities of Lithuanian public debt repayment abilities. The methods of this research consist of the scientific publications and the statistical data analysis.

Public debt of the countries indirectly can be considered as the debt of taxpayers. When the debt increases overmuch, a government's solvency is threatened, because countries are considered solvent as long as they can repay their debt and interest out of future revenue. Often the countries are not just dealing with a public debt crisis, but, more importantly, the country's economic power is considered to be so weak that it cannot carry its debt burden. The scientific literature analysis allow to maintain that main problems of public debt crisis are: the high government spending and weak revenues, external trade deficit and strong imbalances in the trade of goods, the country's declining international competitiveness, the globalization of finance, availability of easy credit, high-risk lending and borrowing practices, international trade imbalances, real estate bubbles, a lack of economic growth coupled with high wages, large subsidies, complex regulations and high taxes. Other concerns include the constantly aging population, increasing unemployment and growing globalization, which have allowed manufacturing and services to locate across the world. Conversely, the important factors determining the country's economic strength and ability to repay debts are exports, foreign direct investments, economic activity of inhabitants, etc. The critical factors could include the economic structure of a country that is able to support the level of debt. The political stability of a country is an important factor in determining probability of default.

In the first section of empirical research the Lithuanian public debt statistics was analyzed: the central government debt (domestic and foreign), revenues, expenses, interest payments for investors, sovereign ratings. In the second section the Lithuanian public debt data with the similar statistics of other EU countries was compared. The third section summarizes the main risks and opportunities to Lithuania related to the changes in public debt that became visible after the implemented analysis. The empirical research has pointed that Lithuanian public debt to GDP is the 6th least in EU. The average public debt of 1 EU country is higher 26,7% compared to Lithuanian rate. But the main problem that in 2009 – 2012 the average Lithuanian central government debt increase rate was 28,03% yearly. However, the government was able to reduce the overrun of national budget from 27,35% in 2009 to 8,75% in 2012. The decreasing fiscal deficit permits to reduce the borrowing but the necessity to refinance the preceding debts and interest payments enlarges the risk of public debt growth. The association rules analysis has shown that counties with high GDP and exports tend to have higher public debts. The opportune situation that Lithuania was classified into low debt group but due to the imperfect macroeconomic indicators the growth of public debt for the country is quite risky. It is positive that EU and other foreign support significantly complement the national budget of Lithuania, without this money flow the public debt should be higher. The opportunity to reduce the public debt is in the least tax burden of Lithuania in the EU, that stimulates investments. The negative factor is decreasing number of inhabitants that earn income to the national budget. Also the government borrow from citizens insufficiently because the interest rates of treasury notes are not attractive. Increasing the treasury notes interest rates it is possible to increase borrowing inside the country.

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THE SPECIFIC OF BRAND BUILDING FOR MEN IN FASHION LUXURY INDUSTRY

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Abstract

This study investigates the peculiarities of luxury brands consumption among Russian men, specifically in Moscow. The author analyses the current trends in consumption, determines the specific of luxury brands in fashion industry and shows the portrait of average luxury brands male consumer in Moscow. The brands preferences and motives for its buying are presented in the paper and some recommendations for the brands promotion are given in the end of article.

Keywords: fashion, luxury brands, male consumers, prestige, global trends, cultural background.

JEL Classification code: M31.

Introduction

Today Russia is considered as one of the most promising markets for luxury fashion brands. According to Euromonitor, “the Russian luxury market continued its sustainable though restrained development in period 2011-2012” (euromonitor.com). Based on Forbes 2011, Moscow alone had 79 billionaires, replacing New York City as the largest (PwC Report 2012).

Furthermore, interviews with Russian luxury designers and consumers demonstrate that Russian customers strongly prefer global luxury brands to local ones, a finding which is further illustrated by some statistics in luxury brands reports and results of research of Russian luxury consumers. For instance, sales of Italian luxury brands in Russia achieved 5.5 billion euros in 2012, excluding sales to Russians abroad (cpp-luxury.com).

Fashion luxury brands have become a part of lifestyle for many Russian consumers with different level income, age and social status. Then not only visual symbols of wealth are key motives for buying luxury but also quality and aesthetics provided by luxury fashion brands is of particular interest to Russian consumers. Besides, history, heritage and craftsmanship which are behind the brands of this type have also significance for the Russian real luxury brands' connoisseurs.

Luxury as well as fashion is directed at both female and male consumers. Although historically it is considered that females are more susceptible to fashion, during last years the men audience has become more sensitive to fashion. As Mark Tungate in his “Branded male” points out that “men are not what they were. They are more sensitive than their predecessors. They are more nurturing, more interested in looking good and ... a lot keener on shopping” (Mark Tungate, 2008, p.2). Also

Tungate mentions about brands that men consume. He writes that “the brands that men prefer display certain collective attribute as functionality and authenticity (p. 218 - 219)”. In our opinion, these attributes are not enough and we would like to add aesthetics which is also important as longevity, heritage and craftsmanship. In our research we will check the role of aesthetics for men.

However, there is a lot of research dedicated to fashion and luxury brands as a social, economic and marketing phenomenon, there is still an academic gap in study fashion luxury brands with focus on male consumption. As for Russian male consumption there is no one academic publication related to this subject.

Some researchers shed light on the specific of luxury brands and its strategy in general concentrating on its nature and building (J.-N. Kapferer, V.Bastien, M.Chevalier, G.Mazzalovo, B.Dubois, C.Paternault). R.Chadha and P.Husband investigated the Asian luxury consumption. They examined luxury brands preferences and motives for buying them in different Asian countries as China, Hong Kong, Japan and others. The other researcher Uche Okonkwo concentrated on luxury branding in fashion industry. Cele C. Otnes and Linda Tuncay Zayer studied the influence of gender and culture on consumer behavior mainly in USA. Mark Tungate described so called “branded male” and his luxury consumption relating to Europe. Nicola E. Stokburger and Karin Teichmann studied brand attitude and purchase intention with a special focus on gender (Journal of Business Research 66 (2013), “Is luxury just a female thing? The role of gender in luxury brand consumption” p. 889). As gender influences consumer behavior, it is important to delve into gender aspects of luxury fashion brands in connection with Russia.

The goal of this article is to advance the understanding of the specific of fashion brands in luxury

sector for men audience in Russia. Besides, we would like to establish relationship between men's lifestyle and their consumption of fashion brands and find out their attitude toward luxury.

First, we review the global trends in a fashion luxury industry that have appeared in different research. Second, we identify the specific of fashion luxury brands. Third, we examine male consumers, find out some special features of them and then divide them into groups and determine segments. Besides, we establish six preliminary hypotheses related to our subject, which were proved or disproved during our research and presented in the end of the article.

H1: Men are rather positive to luxury fashion brands.

H2: The key motive for buying luxury fashionable brands for men is a prestige.

H3: The men who are susceptible to fashion trends in clothing also care about their appearance and use skin care.

H4: The men are loyal to the brand and usually buy items from the different product lines of this brand (clothes, perfume).

H5: The male consumers wearing branded clothes like to spend their spare time listening to classical music or watching performance in a theater.

H6: Fashion luxury male consumers use mix and match approach (Armani+Zara, for example).

In the end of the article, we conclude with a summary of the results, limitations of our research and directions for a future work.

Theoretical framework

Global trends affecting fashion luxury industry

In this part of the paper we review descriptions of contemporary trends and various perspectives affecting luxury consumption presented in different literature.

In the book "The luxury strategy: break the rules of marketing to build luxury brands" J. N. Kapferer & V. Bastien describe the powerful drivers for luxury (p. 11 - 17). The most important driver, according to the authors, is democratization. Today more people have access to the magic luxury world and social stratification is little by little disappearing. In general, the spending power has increased. Actually now some people have to make choice between buying many "usual" products and concentrating on just a few products of more luxury level.

The second driver is globalization. It offers accessibility to new products, brands, cultures, emotions and desires (Kapferer & Bastien, p. 13). However, in any case luxury brands are rooted in a culture. The strong brands come along with a small piece of its native culture (Kapferer & Bastien, p. 14). For example, products by Dior or Ferragamo brands, being produced in France (Dior's place of origin) and Italy (Ferragamo's place of origin), are considered real luxury products in every part of the Universe.

The third driver, which is close to globalization, is communications. Speaking about communications, Kapferer means mainly the development of global mass media. Today mass media is a strong force that allows

people to be aware of "cultural richness and diversity of our planet and of the many other possible ways of living..." (J. N. Kapferer & V. Bastien, p. 15).

It is important to stress the tendency to marry later. It means that unmarried people have more funds for self-pleasure (Nicola E. Stokburger, Karin Teichmann, 2013, p. 890). Thus, they can afford themselves to buy luxury brands from time to time. The next trend is moving towards the experience economy. The consumer doesn't just want to buy products but experiences. The trend of experience economy enhances the experiences value of shopping but also the experience value of clothing itself.

The specific of fashion luxury brands

"Luxury is something like happiness, in that everybody has their own definition"

Dubois Bernard

Fashion has many different implications. "On one side of the spectrum, fashion is defined in a restrictive way as the study of material artefacts such as clothing, apparel, and accessories. On the opposite side, others will argue that fashion is a cultural phenomenon that encompasses not only the way people dress but also how they act and think. Fashion in this latter respect is a symbolic world that comprises all aspects of life" (Francesca Polese, Regina Lee Blaszczyk, "Fashion forward: the business history of fashion", Business History Vol. 54, № 1, February 2012, p. 6). Fashion is not about functionality, it's about symbolism and expression of the ego. "Functional irrelevance as contrasted with symbolic significance for the expression of ego is implicit in all fashion" wrote Edward Sapir in the Encyclopedia of the Social Sciences (Edward Sapir. "Fashion". Encyclopedia of the Social Sciences. New York: Macmillan (1931), p. 139-144).

Although fashion and luxury are both instruments of individual differentiation, they are not synonyms. Today only luxury relates to a latent social hierarchy (J.-N. Kapferer, p. 98) and supports social status. As for fashion, it can be for everyone "to differentiate themselves and to integrate themselves into their group, their tribe, even at low prices" (J.-N. Kapferer, p. 98). Luxury is about reward of success and achievement of welfare and power. Anyway, the relationship between luxury and fashion is rather complicated. Luxury is timeless as fashion essentially involves changes. In many cases, luxury brands follow fashion and create items that display current trends. While fashion is temporary and fast, the real luxury is never out-of-dated: the older the luxury item, the more valuable it becomes.

Luxury, as a concept, as well as fashion, has been used in many different ways (Manfredi Ricca, Rebecca Robins). In their seminal work, Manfredi and Robins challenge the current understanding of luxury, revealing flaws in definition. There is certainly a strong degree of subjectivity in its interpretation, which makes it difficult to establish the boundaries between the idea of premium and the concept of luxury (Manfredi, p.1). Manfredi even writes about special form of luxury as meta-luxury which is not afforded exclusively from an economic point of

view, but also from an intellectual perspective (Manfredi, p. 23).

“Brands that are successful are those that are able to give an added cultural, aesthetic and hedonistic value to their overall identity” (Mazzalovo, p.156). Quality, aesthetics, symbolism can be of paramount importance for luxury brands (Consumer Behavior and Culture: Consequences for Global Marketing and Advertising (Marieke de Mooij, 2011, SAGE Publications). Moreover, timelessness is an indispensable feature of real luxury (Manfredi, p. 13). “When a BMW driver turns the ignition key in “the ultimate driving machine”, he is not only benefiting from a highly engineered car, but also taking ownership of a symbol that signifies the core values of exclusivity, performance, quality and technical innovation” (Marcel W. Braun, “Becoming an institutional brand: a long-term strategy for luxury goods”, Dissertation N 1973, Difo-Druck GmbH, Bamberg 1997). Luxury brands are bought for what they mean, beyond what they are (B. Dubois, C. Paternault, Observations: understanding the world of international luxury brands: the “dream formula”, Journal of Advertising Research. Jul/Aug 1995, Vol. 35 Issue 4, p. 69-76.). A history with deep roots, especially a legend constitutes a special aura for a luxury brand.

Many luxury brands have sooner or later launched products in lower than their traditional sphere of the luxury pyramid. Usually consumers hold positive beliefs and favorable attitudes toward the original brand in memory. A great variety of associations with the brand could potentially be transferred to the extensions (David A. Aaker, Kevin Lane Keller, Consumer Evaluations of Brand Extensions, Journal of Marketing, Vol. 54 (January 1990), p. 28). More luxury brands start to launch special lines for a segment of young consumers. These products are cheaper due to a limited paying capacity of young consumers but they have connection with the original brand and support the atmosphere of closeness to luxury.

Male as a consumer

“Luxury is about knowing how to spend,
rather than having spending power”
(J.-N. Kapferer)

Luxury attracts very different people all over the world. In times past traditionally only noble class could afford to buy luxury, but today luxury consumers “are no longer princes or military leaders..., they are the economic elites, the bosses, the senior executives of multinational companies, the self-made men or women, the traders, but also the artists and cinema, singing or sports stars...” (J.-N. Capferer, p. 77). It’s important to notice that money is not enough to appreciate luxury, some cultural background is principal for it.

In the beginning of 80s of XX century Dorothy S. Rogers, Linda R. Gamans wrote that for the first time in centuries, men have shown an avid interest in jewelry, furs, hairpieces, scents and cosmetics as well as clothing (Fashion: a marketing approach (Dorothy S. Rogers, Linda R. Gamans, 1983 CBS College Publishing, pp. 96-97). Since that time the interest to the luxury fashion

items has become much stronger and spread on rather large group of different people. Today fashion and luxury attracts both genders – male and female. Male consumers have been changing and some of them have started to demonstrate their affection towards shopping.

Furthermore, today we can see a feminization of masculinity. Moreover, men from all social positions have started to partake in the carnival of consumption in ways previously reserved predominantly for female consumers (Cele C. Otnes, Linda Tuncay Zayer).

There are different types of male consumers. First classification is based on men lifestyle and their attitude to fashion and brands. According to the classification, men can be divided into metrosexuals, and retrosexuals. Metrosexual is a phrase extracted from metropolitan and heterosexual, refers to an urban man who pays attention to his grooming and appearance. Metrosexuals represent the men who enjoy both grooming and shopping for clothes (Metrosexuals: a well-groomed market? By Vivian Manning-Schaffel <http://www.brandchannel.com>). The term was offered by journalist Mark Simpson in 1994 and then applied to marketing by Marian Salzman, now CEO, Havas PR North America. These men are supposed to have a “taste for expensive skincare products, stylish clothes and minimalist home furnishings” (“Marketing to real metrosexual men”, <http://homeboynet.wordpress.com>).

Be that as it may, in reality to find a pure metrosexual is not an easy. According to Leo Burnett study conducted in 2006, “men admire toughness, authority, responsibility and what Ernest Hemingway described as “grace under pressure”. They aspire to power, money and status. Silky smooth skin doesn’t come into it” (“Will the real slim shady please stand up”, <http://www.buyerbehaviour.org>). Margaret Jobling, a former director of male grooming at Unilever, discovered that male consumers are rather practical. They must be persuaded of functionality and performance, first of all.

The other segment of male consumers is retrosexuals. They are opposite of metrosexuals. Retrosexuals are not obsessed with their body image and prefer comfortable classic clothes instead of fashionable ones. “The retrosexual man, when it comes to appearance, is a man who is strategic, long-term, and smart. It’s all about investing in one’s lifelong success, not about day trading with one’s appearance... It’s about men with class, finesse, and natural panache” (Cele C. Otnes. Gender, culture and Consumer behavior, p. 274).

Chevalier and Mazzalovo in “Luxury brand management: a world of privilege” established the other four segments of luxury consumers - millennium money, old money, new money and middle money (Mazzalovo, p.151).

Into the millennium money category who made a fortune around the turn of the century come all celebrities and sport stars, as well as those who became rich through the Internet business (like Bill Gates, Madonna, etc.).

As for the old money segment this is the traditional category of those who have inherited their wealth and don’t really work, or who manage a business they have inherited, or who perhaps have a professional

life with a standard of living that is not related to their salary.

The new money category incorporates those who have made a fortune themselves. Unlike the millennium-money category, they are not necessarily young and they did not come by their money easily. These individuals have worked hard and are still working hard. They are careful about money and seem to know its value (business owners, professionals of high level).

The last group of luxury consumers are middle money. This is the category of the upper-middle class, which is careful about money. Their main revenues are through salaries or professional income and they are reasonable spenders. They can be employers of multinational companies, high level doctors, professors, etc. (Michel Chevalier, Gerald Mazzalovo. "Luxury brand management: a world of privilege". WILEY, 2008, p. 151).

The more people from new and middle money groups are starting to buy luxury on different reasons. Bernard Dubois and Gilles Laurent even suggested the term "excursionist" in 1999. "Excursionists" represent very large group of consumers who usually buy between one and five items in the 24 months. This group of people is called "excursionist" because they have just a memorable excursion in a luxury world. The "excursionists" have very precise expectations from a luxury brand. It should be of outstanding quality and timeless. The item should be expensive and open only to a very few individuals. Besides they expect multisensuous experience and accept that their purchase is "slightly futile or unnecessary" (Chevalier, Mazzalovo, p.154).

Customers today have new expectations and new patterns of behavior. Michel Chevalier and Gerald Mazzalovo in their "Luxury brand management" (p. 154) writes that "a woman may in the course of one day buy Zara jeans, a Celine jacket and Wolford leggings. She may then end her day shopping at Carrefour and buying coffee because of a cut-price promotion". We can say the same about men's behaviour. Men also can combine luxury with mass market. For instance, they may buy Tod's shoes, Armani Jeans and Zara discount slim-fit shirt. So creative mix is welcome and it shows that person has a taste.

Most consumers want to express their personalities through their appearance and therefore their choice of clothing, adornment and even perfume. The American anthropologist Lowie R.H. in "Are we civilized? Human culture in perspective" wrote "Man is a peacock. He likes to flirt, to smile, to wallow in riches, but he will play ascetic or spendthrift, if it gives him a chance to strut. Mere power and material profit are not enough, they do not make life worthwhile without the tinsel of prestige" (1929, p.159). Although it was written almost century ago, it still reflects the real situation in male consumer behaviour. Men are more likely to engage in conspicuous consumption than women to show economic achievement and eventually attract a potential mate (Nicola E. Stokburger, Karin Teichmann, 2013, p. 890).

Mark Tungate characterizes contemporary men as loyal consumers (p. 219) and many of them are preoccupied by status and need symbols of success (p. 219).

So, according to the literature, some of the contemporary men are rather sensitive to both luxury and fashion.

Methodology

The current investigation involves both secondary and primary marketing research methods. Firstly, we examined the reports both of luxury producers and consulting companies as well as analysing different publications on the subject. This allowed us to identify global trends in the luxury industry, as well as find out the specifics of fashion brands nowadays.

Utilizing publications devoted to fashion and luxury brands as well as gender's influence on marketing decisions, we created 6 hypotheses about Russian male consumers. The hypotheses are presented in the introduction. We took the deliberate decision to keep our study small because of specific of luxury subject. 12 in-depth interviews with male luxury consumers and 2 with industry experts (who also consume luxury brands) were conducted during July-August 2013. These allowed us to justify as well as falsify the hypotheses formulated before and also find out brand preferences among the male audience.

Table 1
Age and activity characteristics of the respondents

| Age | Activity |
|-------------------------|--|
| Luxury consumers | |
| 60 | Business owner (oil industry) |
| 38 | Manager of high level at Procter & Gamble |
| 28 | Manager of middle level at Procter & Gamble |
| 32 | Manager of middle level (non-state finance industry) |
| 34 | Manager of middle level (non-state pension fund) |
| 24 | Manager of middle level at L'oreal |
| 26 | Musician (violinist) |
| 27 | Architect |
| 44 | Surgeon |
| 23 | Web Designer |
| 22 | Manager of middle level in an Advertising Agency |
| 32 | Sales director (finance industry) |
| Experts | |
| 31 | Fashion blogger |
| 45 | LVMH Russia General Manager |

A combination of self-completed and face-to-face questions was prepared for the interview. Respondents provided mainly a set of open-ended associations with the luxury. The questions № 1-9 are about luxury brands

consumption, questions № 10-11 aim to define the luxury consumers' lifestyle and their cultural background.

The questions were the following:

1) How do you feel about luxury and how would you define it?

2) Why do you buy luxury brands? What is the key driver for your luxury consumption? Does history and legend, personality of a brand creator matter for you? Do you care about brand's awareness?

3) Does brand recognition as visual symbols matter for you?

3) How many items of luxury brands have you bought during the last 24 months?

4) Do you think is it important for men to care about their appearance? Do you use skincare?

5) Please identify your brand N 1 (brand that is in priority for you) for different product categories: clothing, shoes, accessories, perfume. It should be the most admired brands for you.

| | | | |
|-------------|----------------|----------------|------------|
| Dior | Tod's | Tag Heuer | Rado |
| Burberry | Ralph Lauren | Rolex | Guerlain |
| Ferragamo | Moschino | Lange & Soehne | Lalique |
| Brioni | Karl Lagerfeld | Breitling | Givenchy |
| Valentino | Montblanc | LV | YSL |
| Armani | Blancpain | Omega | Kilian |
| Gucci | Kiton | Zegna | Paul Smith |
| Other _____ | | | |

The brands are presented in the table without any special order. It aims to remind luxury consumers of brands names which items they buy.

6) Do you extend your love on other product categories of your brand №1? What products of your brand N 1 do you also buy (clothing, shoes, perfume, accessories)?

7) Can you describe your brand № 1 as charismatic? Where does this charisma come from?

8) Do you prefer brands with an old history and traditions or contemporary ones?

9) Can you combine luxury brand products with premium and/or mass market items?

10) What do you do in your spare time?

11) Your favourite city you've ever been...

The results of our research allowed us to illustrate male consumers' needs and, as a consequence, the specifics of luxury fashion brands building for them. As the fashion luxury sector is extremely large and can include "any human activity from medical treatments to popular music" (Mike Easey, 2009), we limit our research to such fashion luxury categories as apparel, adornment, perfume and skin care.

Research results

The results to be presented have been obtained from recent in-depth interviews undertaken in Moscow, Russia, during July-August 2013. We managed to conduct the interviews with luxury consumers and experts. In total, 14 people were interviewed in person, at café or at their working place. All our respondents are luxury brands consumers. The interviews provided some useful insights about male luxury consumption. As all our respondents consume luxury brands, they feel very positive about luxury and consider it an important part of their everyday life as it helps them express themselves and feel comfortable with being worn with the brands (H1 was proved). However, women are more passionate about luxury fashion items in comparison with men. While women are not the target audience for this research, we asked them (14 respondents) about their feelings about luxury brands, and many of them answered that they are close to cry from happiness when they buy something from luxury. However, no one man responds to luxury brands purchasing by crying from happiness.

As for the segments indicated by Chevalier & Mazzalovo, presented in the theoretical part, we have found out that the majority of the respondents represent "middle money" and only 2 of them belong to the "new money" group. 2 people from "middle money" demonstrate "excursionists" behaviour. There is only one pure metrosexual among our respondents. The others demonstrate the so-called mixed personality of both metrosexual and retrosexual.

Table 2 presents the results about motives for buying luxury brands.

Table 2

Reasons for buying luxury fashion brands

| I buy luxury fashion brands because... | |
|---|---|
| | |
| Because of high quality and prestige | 9 |
| Because of prestige | 3 |
| I don't care about prestige. Quality and longevity motivates me for buying luxury | 2 |

As can be seen from the table, both the high quality and prestige are the key drivers for purchasing the brands. The prestige without high quality matters only for 3 respondents (21,4 %). So H2 was not verified. The brand's history and legend, great personalities behind the brand really matter for the 10 consumers (71,4 %). As for brands awareness, it should be evident to some extent. Other people from the surrounding should identify the brands worn by the men or, at least, see that these items are of good quality and expensive. The most respected brand for clothing is Burberry, for accessories is LV and for perfume is Dior.

The majority of the interviewees (82%) prefer classical luxury brands with long history. The mix & match approach applies to all our respondents (H6 was proved completely). They all answered that they often combine luxury brands with mass market ones, such as,

Burberry jackets with Levi's jeans, Armani Jeans with Zara shirts.

As for lifestyle, the results of our study showed a positive trend that really intellectual and successful Russian people have started to consume luxury brands. The majority of luxury consumers have rather high standards of both cultural and intellectual level (table 3).

Table 3

Leisure activities of luxury consumers

| In my spare time I... | |
|--|---|
| Listen to classical music and read books | 7 |
| Go to a theater | 3 |
| Paint | 1 |
| Play the piano | 1 |
| Engage in sports activities | 2 |

So, we can see that the relationship between luxury brands consumers and their love to classical music (H6) was proved.

80% of our respondents care about their appearances and 43 % of them use skincare cream (7% use even specific eye skincare). So, H3 was mainly proved.

All respondents have showed themselves loyal consumers, who often spread their love to the brand on other product lines of it. For example, the respondent whose favourite apparel brand is Burberry, also buy a perfume and accessories of this brand. The man, whose most preferred brand of clothing is Armani, also buys Armani perfumes and spreads his adoration in Armani's café. So, H4 was also proved.

Discussions and conclusion

To bring the paper to a close, we summarize here the main points of the conducted research.

The final point to stress is that male consumers are an important segment for luxury fashion brands consumption. According to our research results, the

contemporary luxury male consumer is a highly intellectual person. In addition, he has a job with a rather high level of value to society and, to some extent, creativity. His lifestyle includes a strong cultural component: classical music, reading books, extensive traveling.

As Moscow consumers to some extent prefer brands with an evident awareness level, luxury brands should think about a reasonable balance between being recognizable and at the same time rather discreet, not showing off as last Burberry collections demonstrate it.

It is important that a luxury brand reflects the lifestyle of their target audience. For example, LV can be the perfect example of a reflection of the target audience's lifestyle – travelling a lot and striving for happiness and success. Moreover, as a brand's history and personalities matter for the consumers, luxury brands should provide more information about these factors in their communications. On the other hand, we can see in our results section that the new and modern luxury brands also stand a good chance of becoming successful in Russia. So, Moscow is the right place for new luxury brands with legends.

Though the majority of our male respondents take care of their appearance and care for their skin, it could be beneficial for a brand to extend its name as well as its whole identity to cosmetic lines and launch, for example, its own skincare products.

Although this research makes some contribution to the understanding of male luxury brands consumption, the study entails limitations. First, the study involves only 14 respondents. Second, geographically respondents represent only Moscow, so the results cannot be extended to the other regions of Russia. Third, it focuses only on clothing, accessories and perfume product lines. Lastly, we established rather limited quantity of hypotheses. In future we hope to continue our research and include more consumers in our sample and more luxury product lines as well as to establish more hypotheses.

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THE SPECIFIC OF BRAND BUILDING FOR MEN IN FASHION LUXURY INDUSTRY

Summary

Today Russia is one of the most promising markets for luxury fashion brands. The interviews with Russian luxury designers and consumers demonstrate that Russian customers strongly prefer global luxury brands to local ones. Fashion luxury brands have become a part of lifestyle for many Russian consumers with different level income, age and social status. Then not only visual symbols of wealth are key motives for buying luxury but also quality and aesthetics provided by luxury fashion brands is of particular interest to Russian consumers. Besides, history, heritage and craftsmanship which are behind the brands have also significance for the Russian real luxury brands' connoisseurs.

Quality, aesthetics, symbolism can be of paramount importance for luxury brands. Moreover, timelessness is an indispensable feature of real luxury (Manfredi, p. 13). Luxury attracts very different people all over the world. In times past traditionally only noble class could afford to buy luxury, but today luxury consumers "are no longer princes or military leaders..., they are the economic elites, the bosses, the senior executives of multinational companies, the self-made men or women, the traders, but also the artists and cinema, singing or sports stars..." (J.-N. Capferer, p. 77). It's important to notice that money is not enough to appreciate luxury, some cultural background is principal for it.

There are different types of male consumers. The important classification is based on men lifestyle and their attitude to fashion and brands. According to the classification, men can be divided into metrosexuals, and retrosexuals. Metrosexual is a phrase extracted from metropolitan and heterosexual, refers to an urban man who pays attention to his grooming and appearance. Metrosexuals represent the men who enjoy both grooming and shopping for clothes (Metrosexuals: a well-groomed market? By Vivian Manning-Schaffel <http://www.brandchannel.com>). The other segment of male consumers is retrosexuals. They are opposite of metrosexuals. Retrosexuals are not obsessed with their body image and prefer comfortable classic clothes instead of fashionable ones. Be that as it may, in reality to find a pure metrosexual is not an easy.

The results of our research allowed us to illustrate the male consumers' needs in Russia (Moscow) and, as a consequence, the specifics of luxury fashion brands building for them. As the fashion luxury sector is extremely large, we limit our research to such fashion luxury categories as apparel, adornment, perfume and skin care.

Utilizing publications devoted to fashion and luxury brands as well as gender's influence on marketing decisions, we created 6 hypotheses about Russian male consumers – their brands preferences, motives for buying luxury and connections between consumption of luxury brands and cultural background of the consumers. The hypotheses are presented in the introduction part. We took the decision to keep our study small because of specific of luxury subject. 12 in-depth interviews with male luxury consumers and 2 with industry experts (who also consume luxury brands) were conducted during July-August 2013. These allowed us to justify as well as falsify the hypotheses formulated before and also find out brand preferences among the male audience.

All our respondents are luxury brands consumers. As all our respondents consume luxury brands, they feel very positive about luxury and consider it an important part of their everyday life as it helps them express themselves and feel comfortable with being worn with the brands. Both the high quality and prestige are the key drivers for purchasing these brands. The brand's history and legend, great personalities behind the brand really matter for the majority of our respondents. As for brands awareness, it should be evident to some extent. Other people from the surrounding should identify the brands worn by the men or, at least, see that these items are of good quality and expensive. So luxury brands should think about a reasonable balance between being recognizable and at the same time rather discreet, not showing off. Among the men the most respected brand for clothing is Burberry, for accessories is LV and for perfume is Dior.

The majority of the interviewees prefer "classical" luxury brands with long history. The mix & match approach applies to all our respondents. They all answered that they often combine luxury brands with mass market ones, such as, Burberry jackets with Levi's jeans, Armani Jeans with Zara shirts.

As for lifestyle, the results of our study showed a positive trend that really intellectual and successful Russian people have started to consume luxury brands. The majority of luxury consumers have rather high standards of both cultural and intellectual level. We even proved the relationship between consumption of luxury brands and love to classical music among these connoisseurs.

All respondents have showed themselves loyal consumers, who often spread their love to the brand on other product lines of it (for example, perfumes, and accessories). Though the majority of our male respondents take care of their appearance and care for their skin, it could be beneficial for a brand to extend its name as well as its whole identity to cosmetic lines and launch, for example, its own skincare products.

The final point to stress is that the male consumers are an important segment for luxury fashion brands consumption. According to our research results, the contemporary luxury male consumer is a highly intellectual person. In addition, he has a job with a rather high level of value to society and, to some extent, creativity. His lifestyle includes a strong cultural component: classical music, reading books, extensive traveling.

It is important that a luxury brand reflects the high standard lifestyle of their target audience. Although this research makes some contribution to the understanding of male luxury brands consumption, the study entails limitations. First, the study involves only 14 respondents. Second, geographically respondents represent only Moscow, so the results cannot be extended to the other regions of Russia. Third, it focuses only on clothing, accessories and perfume product lines. Lastly, we established rather limited quantity of hypotheses. In future we hope to continue our research and include more consumers in our sample and more luxury product lines as well as to establish more hypotheses.

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THE EFFECT OF ICT ON SMALL SCALE BUSINESS IN NIGERIA

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Abstract

The discovery together with the introduction of Information and Communication Technologies (ICTs) into human activities has changed the lives and livelihood of many generations' globally, especially third world countries. In addition, the small scale businesses have appeared as an appealing possibility in creating jobs as well as eradicating poverty in every society. Despite the prevalence of small scale business in every economy, it has been studied that larger percentage of the small scale businesses in Nigeria are yet to fully introduce ICTs into their business activities. Based on the review of literature, this research paper investigates the acceptance of ICTs as well as its use by small scale business owners. The bone of contention is if it's possible or not to discuss digital split between small business entrepreneurs. This paper also features applicable elements pertaining to the meaning and importance of Information Technologies for small business owners based on prior research. Furthermore, the paper examines the three main indicators: the availability of ICTs in small scale businesses, the rate at which information technologies are being used by small business owners as well as how the ICT are being assessed by small business owners. Based on these key indicators, a digital split is found among small business owners on adoption level and use. Finally, this paper critically explains the ICT role in small scale businesses which definitely leads to an increased income and helps in boosting business activities.

Keywords: Information and Communication Technologies (ICTs), Small Scale Business, Digital split.

JEL Classification: M15, O31.

Introduction

Information and communication technologies have been the order of business in the economic development of many countries globally as a result of their vital stand in easing economic development. Moreover, information technology systems in third world nations often work in a way that makes information acquisition as well as its dissemination hard, expensive and logical. Significant resources to obtain, process, store, spread a processed data and produce knowledge from the processed data are the new information and communication technologies Dietrich (2001). Recently, United Nation Industrial Development (UNIDO) emphasized on the value of information and communication technologies for the growth of small scale business activities. Most small scale entrepreneurship located in third world nations are being envisaged to gain from the new communication technologies. Lately, very few small scale businesses have begun to use an information and communication technology which has contributed to the growth and development of the business activities in many third world nations. The introduction of these ICTs has help these small business entrepreneurs widen their market as well as lessen their dependent rate on the middle men for business activities.

The stable development of small scale business has been experienced worldwide and its major role is for job and wealth creation, economic development as well as poverty eradication Edmiston (2004). In addition, developed countries as well as developing countries have

recorded a rapid economic growth as a result of the significant effort of entrepreneurs Ozkan et al (2010). This significance of small scale business is felt in the third world countries where there are no alternatives to livelihood Ekpenyong & Nyong (1992). Poverty can be reduced in a sustainable way by creating wealth, further economic development as well as creation of job opportunities. According to Gebremeskel et al (2004), In the third world countries, the major sources of income are through small scale businesses which is a fostering opportunities for small business entrepreneurs. I have made a critical review on ICTs sustainability in business activity so as to address the following questions : (1) what impact does ICTs have in a small scale business? (2) How has ICT helped in the boosting of small scale business activities? (3) Does ICTs Innovate the Long term sustenance of small scale business? Series of explanation are given on the concept of ICT development, a critical review of the effect of ICTs on small scale business in Nigeria will be provided by suggesting the significant factors necessary for the implementation of information and communication technologies into small scale business.

LITERATURE REVIEW

Small Scale Business And Ict Usage

What is Small scale business?

Ozkan et al (2010), mention that small scale business means different things to different school of thought. The most important thing is its contribution to the economic growth as well as employment creation in

both developed and developing nations. Golding (2008) claim that small scale business plays a significant role in poverty reduction in third world countries and also encourage economic development in regional and national economies. Ongori(2009) explains that small scale business assist to broaden business activities and are versatile to modifying market demands. Small scale business having been defined against several criteria which are, the value of assets employed and the use of energy” Julta et al (2002).Moreover, Small scale businesses do not have a universal accepted definition. So it is agreed that the definition of small scale business depends on the sector and the country involved. According to Oyeyinka (2012), as stated by Central bank of Nigeria, Small scale businesses are broadly defined as businesses with turnover of less than N100 Million per annum and/ or less than 300 employees. Kayanula and Quartey (2000) stated that the National Board of Small Scale Industries (NBSSI) in Ghana in its own definition stated Small Scale Enterprise as a business with at most 9 employees has plant and machinery in which land, buildings and vehicles are not part of it and it must not exceeding 10 million Cedis (US\$ 9506, using 1994 exchange rate). According to Malawi chambers of commerce “an enterprise is defined as small scale if it satisfies any two of the following three criteria, that is, it has a capital investment of US\$2,000 - US\$55,000, employing 5 - 20 people and with a turnover of up to US\$110,000 (using 1992 official exchange rate).” According to the United State Small Business Administration Table of Small Business Size Standards, a small scale business is a business activity with less than 500 employees for manufacturing sector and annual receipts which must not be more than \$7 Million for other sectors U. S. Small Business Administration October (2012). European Union defines small scale business as a business activity that has less than 50 employees.

Definition of ICTs

ICT is an acronym of Information and communication technologies. ICTs are different from Information Technology (I.T). Ray Tolley (1995) describe IT as the act of meeting human needs or wants through the use of information, while ICTs is the use of information in meeting up of human needs or want. In addition, ICTs is defined as a technology which helps to ease communication also helps in sourcing, processing and disseminating/transmitting information digitally. Some ICTs that are usually used in third world countries are Television, radio, telegraphic machines and other Medias (Parliamentary Office of Science and Technology (2006)).According to Akunyili D. (2010), ICT is a unification term that covers all technical means for processing and disseminating information. In Akunyili’s view she believes that the merging of IT and telecom technologies led to the invention of ICT. Moreover, ICT is way of capturing data, processing the data to become information, storing the information and dissemination the information electronically Heeks, (1999).Modern ICT such as Personal computers, Laptops, tablets, mobile phones, Fax machines, e-mail, internet etc. together with electronic application like electronic commerce,

electronic business, electronic banking, and electronic government have helped in processing and integrating information in most developing countries

Features of ICTs

According to Mioduseret al (2003) they explained the features of ICT which can help provide opportunities for small scale entrepreneurs and help develop their business action. The features are

- **Speed:** Small scale business get a sense of control of the business, ICT allow entrepreneur to have quick access to information around the world. Moreover, complex issues and be solved and process within a reasonable time if ICT is introduced.
- **Capacity:** Entrepreneur is allowed to store as well as retrieve information. Resources can be accessed via internet and other ICTs. Wide series of stored information can be used to create and understand business activities globally
- **Communicability:** While constructing business ideas, entrepreneur can communicate their idea using different forms of platforms, applications and findings. More so, this gives entrepreneur the ability to develop ideas and share through business debates and dialogue.
- **Automation:** Small scale entrepreneur can use spreadsheet applications and other business application to input, sort and signify information to examine possible alternatives to problem.
- **Nonlinearity:** Small scale entrepreneur can collect information from wide range of ICT resources which can be easily used for appropriate enquiries.

The digitization of information is another major feature of ICT. That is all information is in form of 1 and 0 when they are digitized. Information and communication technologies consist of software which renders services, system hardware as well as network. These elements are illustrated in Figure 1

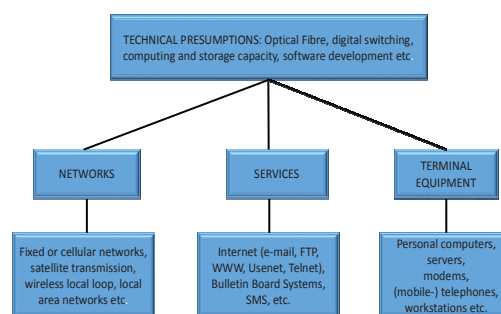


Figure 1. Elements of ICTs

Source: Dietrich Müller-Falcke (2001) p.2

The managing of processed data that is information, as well as technology available for the process is included in system which is made up of individuals as well as procedures, is located in the broader atmosphere. Figure 2 depicts the information and

communication technologies as described by Heeks(1999).

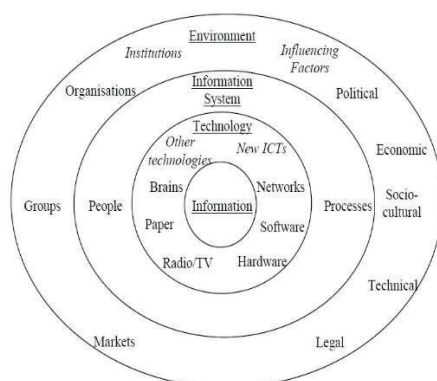


Figure 2. Systematic view of information and communication technologies

Source: Heeks(1999) p. 4

Bayes et al (1999) stated that ICT possess series of inbuilt features which determines its effect and use in information handling. These inbuilt features are pervasiveness, decoupling and existence of network externalities. Pervasiveness explains the non-restriction of ICTs to specific area of an economy. ICT can be introduced as well as used for different purpose.

Decoupling is another important feature of ICT which talks about the separation of processed data from physical repository. According to Kayanula and Quartey (2000), huge amount of processed data can be disseminated instantly without the physical movement of information storage.

Lastly in the ICT features is the existence of network externalities which explain that with each extra user the application of a system improves, but for current users, the externalities have direct.

ICT Impact on Small Scale Business

The full adoption and use of modern technology indicates significant changes in business activities David & Wright (1999). Moreover, the adoption of modern ICTs, not actually sophisticated, technology can cause little change in business activities which may affect organization with increased level of performance. Dewett & Jones (2001) mentioned that ICTs has contributed to business effectiveness majorly in two ways, Firstly it helps to boost the business internal performance and also helps to enhance good customer's relationship. Shahram et al (2012) explains internal performance as the use and adoption of ICTs to assist in reengineering the internal process, this also enhance efficiency so as to make the process faster, easier and accurate. Increasing performance and improving procedures internally, improve customers relation by reducing internal procedures and improving outer control and communication Mustaffa & Beaumont (2002). In addition, the adoption of ICT helps to improve an entrepreneur's business development. Caroli(2001) stated that ICT helps to improve business performance as well

as assist to reinforce the long term sustainability of the small scale business. Woff&Pett (2006) explains that small scale business acquire and use ICT to survive with an intention to grow the business. So far small scale business have some limitations in their field of action, the best way for them in other to grow is to enter new market. In addition to this, the implementation of the adopted ICT helps in boosting a small business visibility in term of prospective and potential customers. This allows small business to attain more customers and formulate developmental strategies in new market. Gunasekaran et. al (2009). With all these, Schiavone (2011) believes the adoption of Information and communication technologies is a strong strategy that can be used to face market competitors in a new market. Lal (2005) stated that information Communication technology takes an active role when small scale business is being internationalized by reducing the entry conditions when going into a new market. This is so because ICT gives room to some specific customers need when attempting to open a new market by entrepreneurs. Vascoccellos e sa et al. (2011)

ICT & Small Scale Businesses in Nigeria

Several scholars have discussed the effect of ICTs in small scale business as a tool for prospective development, as well as the primary attribute which is flexibility. An analysis of the effect of ICT on small scales business as well as ICT influence on developmental prospect in Nigeria are discussed below and compare with that of Samir & Louis(1993). Five specific areas where being identified. Firstly, Small scale businesses in Nigeria experience more unclear atmosphere that is being faced with the challenges of recognizing a suitable technological option. More so, this allows the local small scale business entrepreneurs to rely on prominent customers as well as suppliers for particular technological alternatives. Secondly, most small scale business Nigeria lacks the resources to create its own information and communication systems. This allows the small scale entrepreneur to depend on third party for this product. For this reason there is lack of control which increases danger or risk. Thirdly, the lengths of time of most Nigerian small scale businesses are very short due to lack of cognitive resources. With these, Nigeria small business owners believes the effectuation of ICT scheme is not an ideal choice but it depends on the entrepreneur's instinct. Further explanation was made by Samir & Louis (1993) in the specific areas that the business owners (entrepreneur) perform a major role in the business. The introduction of ICT depends on the entrepreneur perceptual experience. Moreover, the penetration of ICT via small scale business is encumbered because of insufficient training. Lastly according to Adebayo et al (2011), Information and communication systems in small scale business generally are easy and simple. Several application are normally subdued to bookkeeping rather than for business planning. This makes the application to be underutilized in small scale business activities.

Samir & Louis (1993 Pg443) concluded that "despite the sophistication of technology and the investment required in both financial and human terms, it

is already within the grasp of some innovative small firms. For these firms, it has become a strategic opportunity to be seized.” Small scale business in Nigeria which isn’t active in implementing ICT gives domineering chances to the business parties that apply the technology.

According to Farrell et al. (1999) most ICTs problems in Nigeria are capable of being surmounted, others need a move in business activities and operating styles that will need more time to modify. Information and communication technology such as, internet, telecoms etc. depend on specific infrastructure which is electricity and even when such infrastructure is in position, complications occur when they are badly managed or too expensive to use. In addition, most communication technologies such as a Vsat, Antenna, optical Cables etc. fails to function in Nigeria because of increased dependency rate on government policies as well as regulations for telecommunication and broadcasting license as well as poor management in the power sector of the economy. These require initial capital investment for hardware and software which might be expensive for small scale business entrepreneur. Oluwatayo (2011) stated that the most small scale business fail to adopt the ICT because of epileptic power which is a serious menace in Nigeria. Power which should be the backbone of small scale business is not usually available and an alternative for this is an extra cost for every small scale business.

Discussion

According to my research it was observed that a well comprehended benefit has an important and positive effect on the adoption of ICT. The use of ICT with its application in business activities will bring several advantages to the small scale entrepreneur. Presently, most small scale business entrepreneurs in Nigeria are so curious to know the benefit which ICT will bring into their business if implemented.

Implementing information and communication technology into a small scale business will definitely have good impact in the operation of small scale business. This will be so if information communication technology is applied into the business operation, the running of handling information will change and will be cheaper in the long run. Since the information is taken as a key factor which is also used in determining the competitiveness in a business. More so, by reducing the cost of information ICT gear up the transmitting of information to an increasing state, this increase make the information quality to also grow.

In addition, ICT will enhance the exchange of communication and information in every small scale business if introduced. This will helps to improve the decision making in small scale business and will make the small scale entrepreneur to be well informed. Moreover, ICT education in the competitive aspect of the business operation, that is it assist in the amendment of business structure by giving the small scale business a new pattern to surpass its competitor so as also to create a new market. All this will make information and communication technology in channeling all this effect

by lowering cost, differentiation enhancement as well as changing the competitive idea.

Furthermore ICT can also help in bringing flexibility into the small scale business; because it is when a business is flexible that is when it tends to be a major source of competitive merit to the business. The ability of quickly adapting to a circumstance will definitely be an edge on the competitor who is slow in adapting. Flexibility enhancement of successful small scale business is assigned to ICTs. Initially ICT seems to assist in creating several flexible connections with other small scale business and other types of business via the features of speedy exchange of information. In addition ICT if applied into a small scale business will contribute to the enhancement of business flexibility if it’s been adapted to hasten up internal process when there are environmental changes. According to previous research one of the most important merit of small scale business is flexibility. But according to my own opinion, the effectiveness of any small scale business should only be determined by the adoption and adaptation of ICT so as to enhance flexibility of the business. ICT also assist in the improvement of competitiveness if small scale business is done by strengthen the business core competence which is flexibility. Figure 3 depicts all the benefits that will be derived by Small Scale business owners in Nigeria if ICT is adopted.

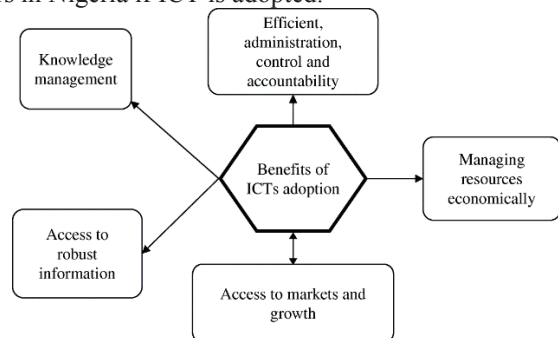


Figure 3. Benefits of ICT’s Adoption

Information communication technology if well implemented and adopted will have a valuable influence on small scale business performance.

Conclusion

Small scale businesses are known to be a point of job creation as well as the engine growth of a nation’s economy. The most reliable solution for the growth and expansion of this small business is Information and communication technology. Studies have proven that the introduction of ICT into small scale business in Nigeria have serious positive impact on small scale business which will help in the expansion of business activities of small scale business. Some of which are improved income, expansion of the small scale market, reduction in cost, easy means of advertising and marketing. Without any doubt, the vast gathering of brilliant expertise, technology enhancement as well as creative power in the small scale business will help improve the performance in the product supply chain.

Recommendation

It is hereby recommended that small scale businesses in Nigeria and third world countries should follow the current trends in information technology and

subsequently endeavor to keep up with upcoming ICT innovation. More so, Nigerian policy maker should endeavor to make policies and laws that will enhance small scale business growth in Nigeria.

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Oluyinka Abayomi Otesile

THE EFFECT OF ICT ON SMALL SCALE BUSINESS IN NIGERIA

Summary

This research paper investigates the acceptance of ICTs as well as its use by small scale business owners. The bone of contention is if it's possible or not to discuss digital split between small business entrepreneurs. This paper also features applicable elements pertaining to the meaning and importance of Information Technologies for small business owners based on prior research. Furthermore, the paper examines the three main indicators: the availability of ICTs in small scale businesses, the rate at which information technologies are being used by small business owners as well as how the ICT are being assessed by small business owners. Based on these key indicators, a digital split is found among small business owners on adoption level and use. Finally, this paper critically explains the ICT role in small scale businesses which definitely leads to an increased income and helps in boosting business activities.

The analysis of research literature allows making the following concluding remarks: small scale businesses are known to be a point of job creation as well as the engine growth of a nation's economy. The most reliable solution for the growth and expansion of this small business is Information and communication technology. Studies have proven that the introduction of ICT into small scale business in Nigeria have serious positive impact on small scale business which will help in the expansion of business activities of small scale business. Some of which are improved income, expansion of the small scale market, reduction in cost, easy means of advertising and marketing. Without any doubt, the vast gathering of brilliant expertise, technology enhancement as well as creative power in the small scale business will help improve the performance in the product supply chain.

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CRITICAL FACTORS OF E-COMMERCE DEVELOPMENT

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Abstract

This paper analyses the factors affecting the development of e-commerce. Based on an analysis of scientific sources, the following factors and indicators reflecting them have been chosen for the quantitative analysis of the impact of external environment factors: technological factors – Internet access, the demographic structure of the population, namely, ratio of women to men in the population, ratio of working-age to non-working-age population, computer and Internet literacy of the population; economic factors – GDP, the employment rate, minimum wage and consumption expenditure per capita. The correlation analysis performed on the basis of the EU-27 data shows the highest correlation coefficients between the volume of e-commerce and the Internet usage, computer and Internet literacy, employment rate and the minimum wage. A strong relationship is also between the scale of e-commerce and the integrated Networked Readiness Index as well as the favourability of the ICT environment in a specific country.

Keywords: e-commerce development, factors affecting e-commerce.

JEL Classification: L81, L86, M31, O33.

Introduction

The fast development of information communication technologies (ICT) and the increasing use of the Internet in various areas of activities of enterprises have a profound impact both on the sales of products and services over the Internet. Nowadays, technologies offer wide opportunities of entering the international market and expanding the existing one by various methods. The ICT's have enabled organisations to review their business models and transform their internal processes, to be able to take advantage from higher benefit-to-cost ratio and more efficient business processes.

The Lithuanian Concept of e-Business defines it as performance of business operations and organisation of activities of an enterprise through the use of information technologies in data transmission networks. This includes various activities for earning profit – commerce, marketing, services, telemedicine, distance learning, distance work, banking and other activities pursued over the Internet. E-business covers not only ordinary business operations, but also new business methods which are possible only in a virtual environment.

The models applied in electronic business are classified first of all by participants: business-to-consumer (B2C), business-to-business (B2B), consumer-to-business (C2B), consumer-to-consumer (C2C), peer-to-peer (P2P), government-to-business (G2B), government-to-consumer (G2C), business-to-employee (B2E), as well as government-to-government (G2G). The most popular are business models connect consumers, business and government institutions.

E-commerce covers all types of relations linked with conclusion of international and national transactions: purchasing, sales, supply, making orders, *advertising*,

consulting, various agreements and forms of business-related co-operation.

E-businesses are facing considerable challenges, because consumer behaviour in virtual environment differs from that in traditional commerce, and research in this area is highly topical. Researchers are examining consumers, their behaviour, the factors which affect decisions to purchase on the Internet and the factors which impact e-commerce development at macro level.

In 2012, 59 per cent of Internet users in the EU-27 purchased or ordered products / services over the Internet (EUROSTAT Statistics in focus 50/2012). In Lithuania, this figure amounts to 30 per cent, that is, half as much, whereas as regards Internet usage, Lithuania is only slightly below the EU-27 average: the share of Internet users in the entire population of EU-27 amounts on average to 73 per cent, and of Lithuania – to 68 per cent. Thus, it is possible to claim that the volume of e-commerce in Lithuania lags behind current technical possibilities, namely, Internet usage. Therefore, research of the factors having an impact on the development of e-commerce is required.

The aim of the paper is to identify the key external factors affecting the development of e-commerce (B2C).

Object of research: the factors influencing the development of e-commerce.

Research methods: comparative analysis of scientific literature, statistical methods (descriptive statistics, correlation analysis).

Factors affecting the development of e-commerce

In different countries of EU-27, the share of buyers online in the entire population ranges from 5 to 74 per cent (Figure 1), and the average amounts to 45 per

cent. The leaders are Sweden, UK and Denmark – over 70 per cent.

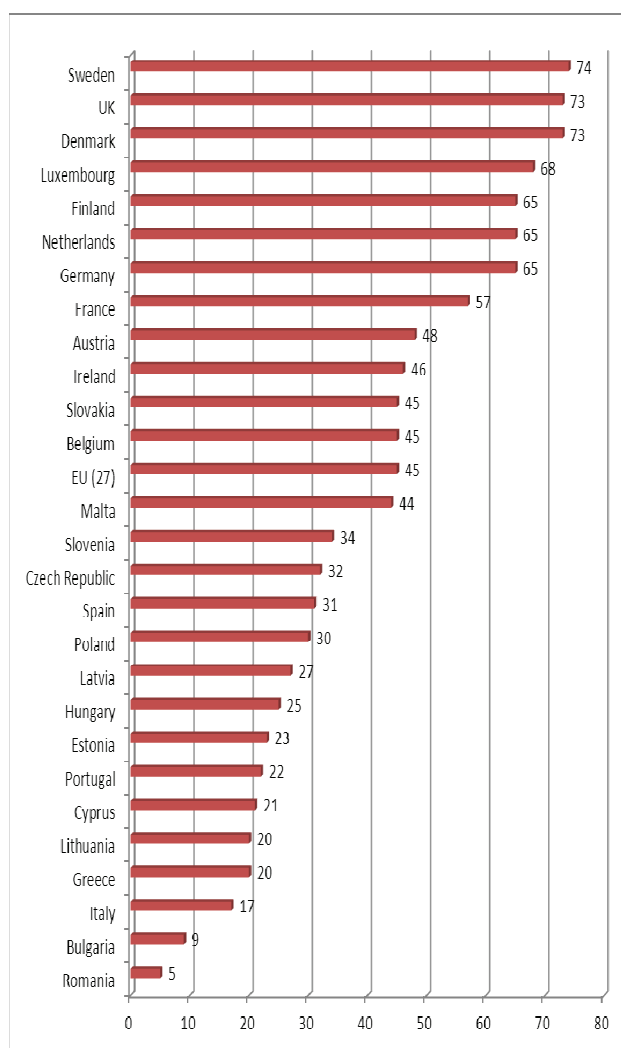


Figure 1. Share of individuals (%) who bought over the Internet in the past 12 months (prepared on the basis of Eurostat data of 31 July 2013, Individuals using...)

The rapid increase in the scale of e-business in all countries leads to extensive research of the development of e-business, e-commerce and public e-services and the factors affecting it (Alam, 2011; Andersone, 2008; Brashear, 2009; Broekhuizen, 2009; Davis, 2006; Dennis, 2009; Gaile-Sarkane, 2006; Ha, 2010; May So, 2005; Soopramanien, 2007; Xu, 2010; Zoroja, 2011).

Researchers offer various classifications of the factors affecting the development of e-commerce. When analysing the development or adoption of e-commerce in respect of B2B models, factors are initially divided into two groups – factors of the general situation in a country (macro environment) and factors of the environment of an enterprise or an organisation (micro environment) (Peixin, 2012; Ho, 2007).

Technological factors are often separated from the general environment as a separate group due to their particular importance (Peixin, 2012; Hong, 2006). It should be noted that some authors (Wong, 2003; Ksheti,

2007, Zhu, 2010) does not discuss the technological factors at all, identifying other external environment factors, such as the demographic structure of the population, a compatible socio-cultural infrastructure, human resources, and socio-political factors.

In the case of the B2C model of e-business, personal factors contribute to the mentioned groups of factors as they have a significant impact both on consumer readiness to buy online and on the process of purchasing itself. Other authors complement the list of groups of factors with legal and political factors.

According to participants in the process related to changes in factors (or reacting to them), the factors that influence consumer behaviour in traditional commerce may be grouped into three categories: external factors (covering the general economic, social, and regulatory environment), the factors determined by the seller company (marketing tools and buying process), user characteristics (personal and psychological factors). In the case of e-commerce, compared against traditional commerce, the external environment and the buying process have changed as a result of the development of information and communication technologies, the buying process now taking place outside physical space and in another manner. Therefore, the factors that influence consumer behaviour and, at the same, the development of e-commerce can be grouped similarly to traditional commerce, by adding newly emerging factors. The group of external environment factors, as compared with traditional commerce, is supplemented with technological factors (specifically, computer and Internet usage); the group of the factors depending on the seller is supplemented with website properties; the group of personal traits of consumers is supplemented with the factors which characterise the adoption of information and communication technologies and attitudes towards them (Pabedinskaitė, 2011, 2012).

E-consumer behaviour is influenced to a large extent by personal factors, which include personal characteristics and various psychological factors. When drawing the portrait of an e-consumer, the authors primarily discuss demographic characteristics.

For example, according to Dennis (2009), e-buyers: are more educated, earn more, are younger than the national average and the majority of them are males. From the early days of use of the Internet for commercial purposes, gender differences in Internet use have been observed (Jayawardhena, 2007). Studies show that the representatives of the different sexes take purchasing decisions differently. According to studies by Dholokia (quoted by Jayawardhena, 2007), shopping for men is an annoying and undesirable process, hence men try to minimise the time needed for shopping. For this reason, men purchased online more frequently than women. Women become more involved in the purchasing process than men, they tend to focus on the purchasing process itself, whereas men care more about the result (Dittmar, 2004). Men are more focused on the goal, while women care about social aspects hence men view more favourably the benefits of e-commerce. Men and women differ in their buying behaviour and attitude to risk (Hofstede, 1980). Women are more sensitive to a higher

level of risk in e-commerce and more often choose shopping on the websites which have a good reputation and are recommended by other buyers (Bartel-Sheen, 1999, Siegel, 2003; McMahan, 2009; Hernandez-Ortega, 2008; Hui, 2007). Moreover, women and men use the Internet for different purposes, are interested in different websites and buy different goods. Women use the Internet to find new friends or a partner, find information and get advice, study online, shop and book a trip, while men seek a career and social and political recognition (Colley, 2008). Women are usually interested in websites of a more diverse content, while men are interested in a limited amount of information, namely, pages and products for adults, sports and electronic equipment (Paliulis, 2007). As men and women are characterised by a different purchasing orientation and approach to risk, their behaviour is likely to differ also in the e-commerce environment.

However, according to Dittmar (2004), Jayawardhena (2007) and Hernandez (2011), long-term web studies have shown that gender is losing its significance. The authors argue that the difference between women's and men's attitudes towards the Internet and its use for purchasing was more pronounced in the past, and now it is disappearing.

Many authors identify age as another characteristic that describes e-consumer. Swinyard (2003) argues that e-buyers are younger. However, other authors claim the opposite, that is, that e-buyers are older and have higher earnings (Jayawardhena, 2007). Meanwhile, Hernandez (2011) notes that over time, the average age of e-buyers naturally increases, as e-buyers, who became such while being young, remain buyers becoming increasingly older.

Research by some authors (Zoroja, 2011) shows that there is dependence of the Internet usage on gender and the level of education in a country. According to data of 2010, Internet users make up 71.3 per cent of the total population of developed countries in Europe. Among the population with low educational level, Internet users account for 52.5 per cent, in the group with secondary education – 79.3 per cent and in the group with higher education – 91.4 per cent. Thus, the number of Internet users among individuals with higher education is almost twice larger than among those with a low level of education. In all education level groups, there are more male Internet users than female, however the difference decreases with the increase of the level of education: in the low education level group, it makes up 10 per cent, in the secondary education group – 4.8 per cent and in the higher education group – 2.9 per cent, while in respect of the total number of the population the difference amounts to 6 per cent. In 2010, the share of e-commerce consumers in the population made up 34.4 per cent, and this share increases with the increase of the level of education if grouping individuals by education (respectively 18.5 per cent, 36.6 per cent, and 51.9 per cent of the population in the groups).

To sum up, it can be claimed that the impact of consumers' age and gender on the use of e-commerce services is viewed highly differently, and even oppositely, by different authors. The different results of

studies may be explained by the fact that it is difficult to eliminate the influence of other factors. For example, the abovementioned studies (Zoroja, 2011) suggest that men with higher education and higher income more actively buy online than women. However, it is possible that if the level of education is the same, gender no longer has a significant influence.

Other researchers (Dennis, 2009) argue that people with a higher level of education are generally more focused on information collection and processing and use more information for decision-making, while less educated people use less information. According to (Swinyard, 2003), e-buyers are characterised by a higher level of education and a better understanding of the Internet. However, education very often determines the amount of income. This is yet another characteristic that is identified when drawing the consumer's portrait. It can be claimed that the individuals who have higher earnings are not afraid to take risk, because they are less worried about financial losses (Swinyard, 2003). According to (Andrews, 2004), the consumers buying online are more convenience sensitive and less pricesensitive.

One of the researchers (Rohma, 2004) who has interviewed consumers of online and traditional grocery stores has concluded that demographic variables (gender, age, education, income) of traditional and online buyers do not differ, i.e., those whose income is higher spend more on purchases, and it does not matter whether they buy online or in a traditional store. This would mean that income is the most important factor in determining the volume of purchases. Other authors reached the same conclusion (Doherty, 2010). According to the analysis, the authors argue that personal profiles – age, gender, education, wages, etc. – of online buyers and those preferring traditional shopping no longer differ. Meanwhile, upon conducting a study other researchers (Hernandez-Ortega, 2008) have made the conclusion that traditional consumers (including beginners and experienced buyers) are mostly men, 24-44 years of age, having a higher education, while potential e-buyers are mostly students (no gender differences), aged 15-34, with a low income.

Accordingly, when analysing the impact of external environment factors on e-commerce development it is appropriate to include in the model the factors characterising the demographic structure of a country (ratio of men and women in the population, the level of education of the population) and the indicators reflecting income.

It should be noted that the usage and adoption of Internet and e-commerce in a country is also a significant factor determining the e-buyer's profile, because in countries with relatively low Internet usage (e.g., Greece), the e-buyer's profile is significantly different from that of a participant in traditional commerce – a young male with high levels of education and income. Meanwhile, in countries with high Internet usage (e.g., USA) e-commerce is spreading rapidly among individuals of different backgrounds and income levels (Global consumer behaviour, 2007). Therefore, the profiles of e-buyers and participants in traditional commerce are becoming similar over time.

The correlation analysis of the impact of personal characteristics and psychological factors on the decision to buy online has revealed that the decision to buy online mainly depends on the frequency of use of the Internet, the online experience (Internet usage period), age, and education (Pabedinskaitė, 2012). There is a statistically significant relationship between the decision to purchase and the following characteristics of the perceived benefits of e-commerce: greater variety of goods, time saving, delivery to home / work and the opportunity to shop in no hurry.

It is worth noting that there is a correlation relationship between the independent factors themselves: frequency of Internet usage, which is the main determinant in decisions to buy, in turn quite strongly depends on the period of use of the Internet and age.

This is consistent with the results of other authors' research (Soopramanien, 2007) indicating that online shopping depends primarily on how consumers assess the characteristics of Internet usage, namely, simplicity and efficiency, and this is explained by the technology acceptance (TAM) model of consumer behaviour.

Results of the analysis of significance of external environment factors

As it has been mentioned above, literature focuses mainly on the group of personal factors group, which includes the user's personal characteristics and psychological factors, while general environment factors are devoted less attention. Understandably, they do have an impact, but an e-business enterprise cannot influence them, hence internal factors and consumer needs to be assessed and taken into account are more important for it. On the other hand, it is not an easy task to identify specific external environment factors which would have quantifiable indicators and analysis could rely on quantitative methods. For example, it is certainly quite difficult to quantify and assess cultural factors or the socio-cultural structure, which will undoubtedly affect the development e-commerce in a country.

Based on the analysis of literature as presented in the first section of the paper, the following factors and indicators reflecting them have been selected for the quantitative analysis of external environment factors:

Technological factors – Internet access;

Demographic structure of the population – ratio of males to females in the population, ratio of working-age to non-working-age population, computer and Internet literacy of the population;

Economic factors – GDP, employment rate, minimum wages, consumption expenditure per capita.

The analysis has been carried out on the basis of statistical data of EU-27 countries as provided by Eurostat.

There is a statistically significant correlation relationship of the spread of e-commerce with almost all factors among the abovementioned external environment factors (where $\alpha=0.05$). The correlation coefficients of dependency of the spread of e-commerce on various macroeconomic factors are presented in Table 1 (data of 2011 and 2012). The strongest correlation relationship is

with Internet access ($r=0.936$), computer literacy ($r=0.829$) and minimum wages ($r=0.817$); there is also a sufficiently strong relationship with the employment rate ($r=0.7$). Dependency of the spread of e-commerce on the number of women per 100 men is weaker, but statistically significant ($r= - 0.529$, where $\alpha=0.05$); this coefficient is negative, that is, the more female is the population, the smaller volume of e-commerce will be. Computer and Internet literacy is assessed at three levels: the ability to carry out 1-2 operations, 3-4 operations or 5-6 operations. Interestingly, the largest correlation coefficient corresponds to the medium level of computer and Internet literacy, when a user is able to carry out 3-4 computer- and Internet-related operations. Even the literacy of the lowest level (1-2 operations) affects the spread of e-commerce: the correlation coefficient corresponding to Internet literacy is equal to $r=0.752$, accordingly the coefficient corresponding to computer literacy – $r=0.437$. The correlation relationship between the spread of e-commerce and third-level Internet literacy is not statistically significant. It should be noted that the values of correlation coefficients in different years differ only slightly.

Table 1
Association between e-commerce volume and external environment factors

| Title of factor | Correlation coefficient, 2012 | Correlation coefficient, 2011 |
|--|-------------------------------|-------------------------------|
| Level of internet access – households | 0.936 | 0.9089 |
| Individuals who have carried out 1 or 2 of the computer related activities | 0,524 | 0,437 |
| Individuals who have carried out 1 or 2 of the Internet related activities | | 0,7523 |
| Individuals who have carried out 3 or 4 of the computer related activities | 0.829 | 0.836 |
| Individuals who have carried out 3 or 4 of the Internet related activities | | 0,7848 |
| Individuals who have carried out 5 or 6 of the computer related activities | 0,521 | 0,595 |
| Individuals who have carried out 5 or 6 of the Internet related activities | | -0,0273 |
| Women per 100 men | -0.518 | -0.529 |
| Employment Rate | 0,70 | 0.694 |
| Minimum wages | 0.817 | 0.810 |

Correlation coefficients of dependency of e-commerce volume on other indicators, the latest data on which are provided by statistical reports for 2010, are presented in Table 2. These are economic factors and the indicators reflecting the demographic structure of the

population: GDP, the indicators reflecting consumption expenditure (namely, consumption expenditure as % GDP and consumption expenditure per capita), total age dependency ratio (or the ratio of non-working-age to working-age population) and opposite indicators (the ratio of working-age to non-working-age population). There is a statistically significant (where $\alpha=0.05$) correlation relationship with all the mentioned factors, with the largest correlation coefficients existing with GDP ($r=.683$) and consumption expenditure per capita ($r=0.595$).

Table 2
Association between e-commerce volume and external environment factors (2010 year data)

| Title of factor | Correlation coefficient, 2010 |
|---------------------------------------|-------------------------------|
| GDP | 0.683 |
| Consumption expenditure as % of GDP | -0,557 |
| Consumption expenditure per capita | 0,595 |
| Total age dependency ratio | 0,534 |
| Inverse to Total age dependency ratio | -0,506 |

It is interesting to compare the results of the performed analysis against the results of the correlation analysis of the spread of e-commerce with Networked Readiness Index and external environment evaluation (The Global..., 2013). The Networked Readiness Index (NRI) is a complex indicator evaluating the environment for ICT, access and usage, readiness of individuals and businesses to apply information and communication technologies, etc.

Lithuania ranks 14th (Fig. 2) in the EU-27 according to this Index and only slightly below the average, which is equal to 4.839 (standard deviation is equal to 0.664). Finland, Sweden and the Netherlands show the highest values of the Index (close to 6, with the highest possible value being 7). As regards the Networked Readiness Index, all countries of the EU-27 can be divided into three groups: 12 countries with the Index value ranging between 5 and 6, 11 countries with the Index value ranging 4 to 5, and 4 countries whose Index value is less than 4 (Slovakia, Greece, Bulgaria and Romania).

Dependence of the spread of e-commerce on the Networked Readiness Index is strong, the correlation coefficient is equal to 0.861 (Table 3).

Table 3
Association between e-commerce volume and external environment evaluation

| Title of factor | Correlation coefficient, 2012 |
|-------------------------------|-------------------------------|
| Networked Readiness Index | 0.861 |
| Environment for ICT Sub-Index | 0.965 |

| | | |
|----------------------------------|-----|--------|
| Political regulatory environment | and | 0.9795 |
| Business innovation environment | and | 0.792 |

The overall impact of the external environment on the development of e-commerce is even more powerful, as the correlation coefficient is equal to 0.965. Comparing the regulatory environment and the business environment, the regulatory environment is more important for e-commerce ($r= 0.9795$).

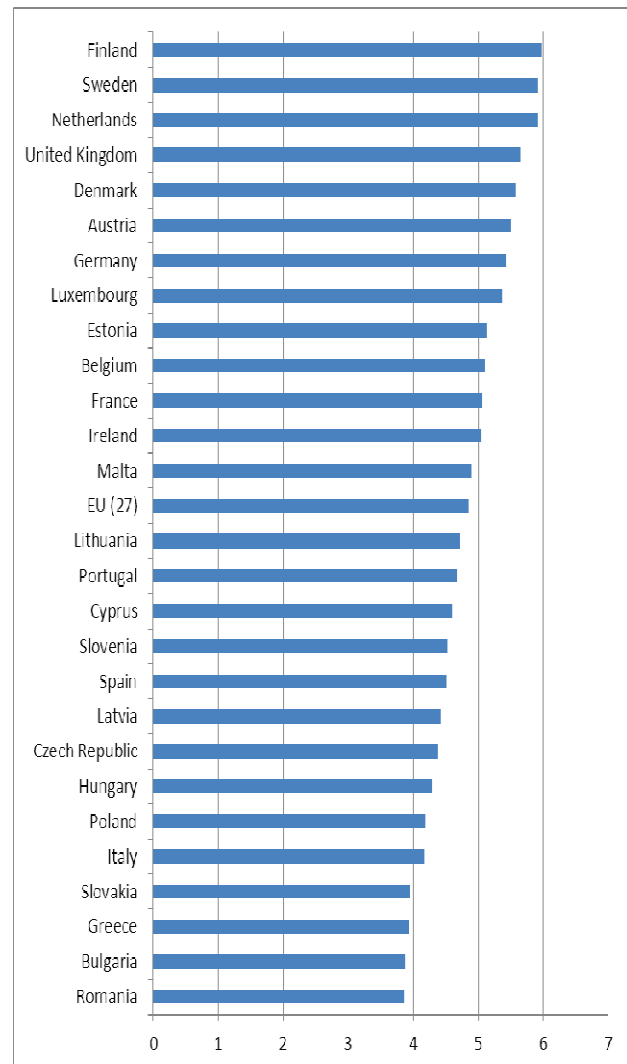


Figure 2. Networked Readiness Index for EU (27) Countries (prepared according data of The Global..., 2013)

It should be noted that it is quite complicated to draw straightforward conclusions about the importance of individual factors, since e-commerce is a complex phenomenon and depends on a large number of very diverse factors, which are also interdependent and, therefore, their effect is synergic. The factors with which

there is a strong correlation relationship may be tentatively considered as critical e-commerce development factors.

Conclusions

1. The development of e-business, including e-commerce, depends on many factors (economic, social, cultural, psychological and personal characteristics of users), but primarily on technical feasibility, that is, information and communication technology (ICT) or computer and Internet usage in a country. These external environment factors have emerged as a result of technical progress, and the associated personal features of a user have an a priori effect on the development of e-commerce. Although the research of the factors affecting the development of e-commerce has been

devoted much attention in scientific literature, there is no uniform classification of these factors.

2. The correlation analysis performed on the basis of EU-27 data shows the highest correlation coefficients between the volume of e-commerce and Internet usage, computer and Internet literacy, the employment rate and minimum wage. A strong relationship is also between the scale of e-commerce and the value of the composite NRI indicator and the degree of favourability of the ICT environment in a particular country.

3. The results of the research show a moderate correlation between the development of e-commerce and the country's GDP, population demographics (ratio of working-age to non-working-age population, ratio of women to men) and consumption expenditure per capita.

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Arnoldina Pabedinskaitė

CRITICAL FACTORS OF E-COMMERCE DEVELOPMENT

Summary

The fast development of information communication technologies (ICT) and the increasing use of the Internet in various areas of activities of enterprises have a profound impact both on the sales of products and services over the Internet. Nowadays, technologies offer wide opportunities of entering the international market and expanding the existing one by various methods. The ICT's have enabled organisations to review their business models and transform their internal processes, to be able to take advantage from higher benefit-to-cost ratio and more efficient business processes.

The models applied in electronic business are classified first of all by participants: business-to-consumer (B2C), business-to-business (B2B), consumer-to-business (C2B), consumer-to-consumer (C2C), peer-to-peer (P2P), government-to-business (G2B), government-to-consumer (G2C), business-to-employee (B2E), as well as government-to-government (G2G). The most popular are business models connect consumers, business and government institutions.

E-commerce covers all types of relations linked with conclusion of international and national transactions: purchasing, sales, supply, making orders, advertising, consulting, various agreements and forms of business-related co-operation. E-businesses are facing considerable challenges, because consumer behaviour in virtual environment differs from that in traditional commerce, and research in this area is highly topical. Researchers are examining consumers, their behaviour, the factors which affect decisions to purchase on the Internet and the factors which impact e-commerce development at macro level.

In 2012, 59 per cent of Internet users in the EU-27 purchased or ordered products / services over the Internet (EUROSTAT Statistics in focus 50/2012). In Lithuania, this figure amounts to 30 per cent, that is, half as much, whereas as regards Internet usage, Lithuania is only slightly below the EU-27 average: the share of Internet users in the entire population of EU-27 amounts on average to 73 per cent, and of Lithuania – to 68 per cent. Thus, it is possible to claim that the volume of e-commerce in Lithuania lags behind current technical possibilities, namely, Internet usage. Therefore, research of the factors having an impact on the development of e-commerce is required.

Object of research: the factors influencing the development of e-commerce.

The aim of the paper is to identify the key external factors affecting the development of e-commerce (B2C).

Research methods: comparative analysis of scientific literature, statistical methods (descriptive statistics, correlation analysis).

The rapid increase in the scale of e-business in all countries leads to extensive research of the development of e-business, e-commerce and public e-services and the factors affecting it. The development of e-business, including e-commerce, depends on many factors (economic, social, cultural, psychological and personal characteristics of users), but primarily on technical feasibility, that is, information and communication technology (ICT) or computer and Internet usage in a country. These external environment factors have emerged as a result of technical progress, and the associated personal features of a user have an a priori effect on the development of e-commerce. Although the research of the factors affecting the development of e-commerce has been devoted much attention in scientific literature, there is no uniform classification of these factors.

Researchers offer various classifications of the factors affecting the development of e-commerce. When analysing the development or adoption of e-commerce in respect of B2B models, factors are initially divided into two groups – factors of the general situation in a country (macro environment) and factors of the environment of an enterprise or an organisation (micro environment) (Peixin, 2012; Ho, 2007). Technological factors are often separated from the general environment as a separate group due to their particular importance (Peixin, 2012; Hong, 2006). It should be noted that some authors (Wong, 2003; Ksheti, 2007; Zhu, 2010) does not discuss the technological factors at all, identifying other external environment factors, such as the demographic structure of the population, a compatible socio-cultural infrastructure, human resources, and socio-political factors. In the case of the B2C model of e-business, personal factors contribute to the mentioned groups of factors as they have a significant impact both on consumer readiness to buy online and on the process of purchasing itself. Other authors complement the list of groups of factors with legal and political factors.

According to participants in the process related to changes in factors (or reacting to them), the factors that influence consumer behaviour in traditional commerce may be grouped into three categories: external factors (covering the general economic, social, and regulatory environment), the factors determined by the seller company (marketing tools and buying process), user characteristics (personal and psychological factors). In the case of e-commerce, compared against traditional commerce, the external environment and the buying process have changed as a result of the development of information and communication technologies, the buying process now taking place outside physical space and in another manner. Therefore, the factors that influence consumer behaviour and, at the same, the development of e-commerce can be grouped similarly to traditional commerce, by adding newly emerging factors. The group of external environment factors, as compared with traditional commerce, is supplemented with technological factors (specifically, computer and Internet usage); the group of the factors depending on the seller is supplemented with website properties; the group of personal traits of consumers is supplemented with the factors which characterise the adoption of information and communication technologies and attitudes towards them.

Based on the analysis of literature the following factors and indicators reflecting them have been selected for the quantitative analysis of external environment factors:

Technological factors – Internet access;

Demographic structure of the population – ratio of women to men in the population, ratio of working-age to non-working-age population, computer and Internet literacy of the population;

Economic factors – GDP, employment rate, minimum wages, consumption expenditure per capita.

The correlation analysis performed on the basis of EU-27 data shows the highest correlation coefficients between the volume of e-commerce and Internet usage, computer and Internet literacy, the employment rate and minimum wage. A strong relationship is also between the scale of e-commerce and the value of the composite NRI indicator and the degree of favourability of the ICT environment in a particular country.

The results of the research show a moderate correlation between the development of e-commerce and the country's GDP, population demographics (ratio of working-age to non-working-age population, ratio of women to men) and consumption expenditure per capita.

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FINANCIAL VALUATION OF BUSINESS PERFORMANCE: THE CASE OF LITHUANIAN TRANSPORTATION AND STORAGE SECTOR

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Abstract

The challenges raised by the constantly changing business environment requires to develop the adequate system for business performance measurement and valuation. This issue is nonetheless critical for transportation and storage sector, the development of which is important not only to separate business entities, but also highly contributes to the sustainable society. The performance measurement systems and the specific internal and external metrics, pointing the financial valuation aspects, are analysed in the article. The empirical research of financial indicators in period of 2005 – 2011 disclosed the main characteristics and changes in the financial state of Lithuanian transportation and storage sector enterprises.

Keywords: financial valuation, performance measurement, financial measures.

JEL Classification: M21, L91.

Introduction

The challenges raised by the constantly changing business environment requires to develop the adequate system for business performance measurement and valuation. This issue is nonetheless critical for transportation and storage sector, the development of which is important not only to separate business entities, but also highly contributes to the sustainable society, considering environmental, quality of life, sustainable business issues. There are many performance measurement systems (PMS) that involve different perspectives and criteria for valuation, however in order to make the detailed and adequate valuation, the combination of measures corresponding the particular business case is necessary. The non-financial measures as being the core are argued by different scientists analysing the PMS, though the financial measurement remains important in all of them. In this paper the selection of measures was related to the availability to make the financial valuation of sector enterprises with comparable results between years.

The aim of this paper is to disclose the main PMS and metrics used for financial valuation of business performance in transportation and storage sector. The paper is divided into three sections. The first presents the background literature, consisting of analysis of PMS, metrics, and financial indicators. The second presents the methods used in empirical research, which are factor analysis, clustering, correlations. The last concludes the results of empirical research and provides the discussion on Lithuanian transportation and storage sector characteristics and changes in financial state.

Literature review

The concept of financial valuation of business performance is dual as it takes the theoretical and research assumptions of business performance measurement and of finance management and valuation. Financial information and valuation is one of the main issues in different business performance measurement systems and frameworks that are discussed further.

Business process is defined as coordinated chain of activities with inputs, tasks, outcomes (Zairi, 1997) and performance measurement systems (PMS) are used as a tool that enables to improve the activities and business results of particular enterprises by objective measurement of business performance. PMS uses the measures that ensure the strategic alignment of the organization and communication of the strategy throughout the business (Franco-Santos et al., 2007; Gimžauskiene, Klovienė, 2011; Glavan, 2011). Neely (2005) interprets PMS as a tool for balancing multiple measures (cost, quality, flexibility and time) across multiple levels (organisation, process and people). The PMS are applied in different companies, regardless of sector, and are important for transportation and storage sector (Stoop, 1992; Išoraitė, 2004, 2006). Further the review of PMS is presented and particular measures used for performance measurement in transportation and storage sector are analysed.

One of PMS that is mostly applied in businesses and discussed in scientific literature is *Balanced Scorecard* (BSC), developed by Kaplan and Norton (1992). BSC is strategic performance management system with critical success factors and key performance indicators for the purpose of transferring organization's

mission and strategy into balanced and comprehensive group of integrated performance measures. There are four perspectives: internal business perspective, customer perspective, innovation and learning perspective, and financial perspective. The BSC uses financial measures as tools to display the results of taken actions. In addition, the model also uses operational non-financial measures to assess the drivers of future financial performance.

The *Performance Prism* is a framework designed to assist performance measurement selection. It suggests that performance measurement system should be focused around five perspectives: shareholder satisfaction, strategies, processes, capabilities, stakeholder contributions (Neely et al., 2001). Financial measures stand in line with other specific measures that should be identified and generated in order to track the performance in all five perspectives.

The *Strategic Matrix of Sink and Tuttle* (Tangen, 2004) is classical and defines performance as a complex interrelationship between seven criteria:

- effectiveness, expressed as the ratio of actual output divided by expected output;
- efficiency, expressed as the ratio of actual resources consumed by expected resource consumption;
- quality, measured through quality management process, inputs, outputs, downstream systems, upstream systems and transformation value adding process;
- productivity, expressed by input to output ratio;
- quality of work life and innovation, as moderators in sustaining and improving performance;
- profitability / budgetability, as financial goal of organization.

TOPP performance model is an integration of three dimensions (Rosstadas, 1998): effectiveness – satisfaction of customer needs, efficiency – economic and optimal use of enterprise resources, ability to change (adaptability) – strategic awareness to handle changes. When applying the model, the key valuation areas are time to market, quality, flexibility and total cost.

The *Performance Pyramid* is a framework for internal and external effectiveness measurement and links corporate strategy to operations by translating objectives top down and measuring bottom up (Cross, Lynch, 1992). It consists of four levels: corporate vision, business units, business operating systems and key performance measures. The role of finance in this framework is

directly disclosed in the second level with market and financial goals.

The Theory of Constraints (TOC) is a set of tools and measures that allow to identify the system's weakest link, or constraints (Striteska, Spickova, 2012). The main performance measures used to assess the ability to obtain the organisations goal are net profit, ROI and cash flow.

The *Performance Measurement Matrix* developed by Keegan et al. (Neely et al., 2000) integrates different classes of business performance: financial and non-financial (as cost and non-cost), internal and external. The matrix improved by Fitzgerald et al. (Neely et al., 2000) involves two basic types of performance measures, one related to results (as competitiveness, financial performance), and the other that focuses on determinants of the results (quality, flexibility, resource utilization and innovation).

Process Performance Measurement Systems (PPMS) are a special type of PMS that should be used in process-oriented organizations. The focus area is not on cost, time, quality or flexibility, but on people that have interest in business process, i.e. is a stakeholder driven performance management (Glavan, 2011). Each group of stakeholders (lenders, investors, employees, customers, society) is represented by an aspects: financial, employee, customer, societal, and innovation.

The variety of PMS presented show that performance valuation can be executed in different ways using objectively selected set of parameters. The balanced set of measures allows to evaluate the performance of the business process in different levels and identify the improvement areas. The dimensions used can be classified in different ways: qualitative and quantitative measures; "hard" and "soft" measures; financial and non-financial measures; result and process measures; measures defined by their purpose (result, diagnostic, and competence), efficiency, effectiveness, and changeability and the six classic measures (cost, time, quality, flexibility, environment, and ethics) (Andersen, Fagerhaug, 1999; Neely et al., 2000; Glavan, 2011).

The metrics used in transportation and storage sector varies although measures the functions (internal and external), focuses on time, quality, availability, cost, profit and reliability, may be financial (cost and revenue) or non-financial (service and productivity), and includes success factors for all business levels (Krauth et al., 2005 a, b; Lambert et al., 2001; Asadi, 2012; Alcantar, Loranca, 2013; Kumar, 2013). The conceptual presentation of metrics used in transportation and storage sector are presented in Figure 1.

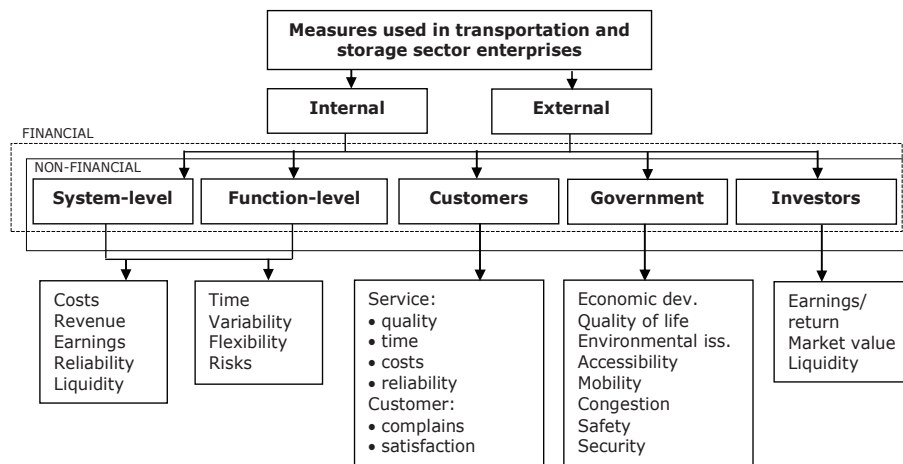


Figure 1. The conceptual presentation of performance measures used in transportation and storage sector enterprises

The measures related to internal performance, customers and investors are usually treated as the most important by enterprises when developing the PMS. Externalities related to economic, environmental and societal issues are equally important for enterprises, government, and society. In case of transportation and storage sector the flow of external benefits is from enterprises and vice versa. The involvement of government into the sector and development of different projects mostly related to infrastructure creates benefits for enterprises as well. The measures used in transportation and storage sector should (Zietlow, 2004):

- reflect minimization of total system and user costs;
- satisfy comfort and safety of users;
- clearly define and objectively measure the process.

The examples of measures used under different categories are presented in Table 1, corresponding to in-depth surveys made by Lambert et al. (2001), Krauth et al. (2005 a, b), Christopher (2007), Langrey et al. (2009), Palšaitis (2010), Glykas (2011), Asadi (2012); Karlaftis, Kepaptsoglou (2012), Alcantar, Loranca (2013), Kumar (2013).

Table 1

Metrics used for performance measurement in transportation and storage sector enterprises

| Metrics | Performance Measures |
|----------------------|---|
| INTERNAL | |
| Service position | variety of services, number of services provided, number of perfectly fulfilled orders, planning and scheduling of service delivery to customer request, quality of documentation, number of new and loyal customers, certificates, reputation of a company, ease of search for contacts and variety of communications channels |
| Revenue | turnover per unit (service, km, customer, employee), price, percent of demand met, market share, number of markets, payment conditions, payment provisions to customers and from suppliers |
| Costs | cost-effectiveness as fixed, variable, overhead, unit cost of service, delay or imperfect scheduling costs, costs of wages and allowances, fuel, office and order management, training, marketing, overtime hours, failures, force major, inspection, control, performance measurement, assets maintenance, IT system maintenance, time in repair and related losses |
| Earnings | profit margins, earnings per unit (service, service group, office, employee) |
| Assets | facilities used, cost/benefit of existing facilities vs. new, capacity for service provision (as storage areas, vehicle loadings), IT equipment and quality, inventories, inbound and outbound loads, automatization and standardization of loads, number and condition of vehicles |
| Travel costs | driver's time and expenses (as tools, tariffs), costs related to inclement weather, monetary and time cost of congestions, lowering costs with driver planning and rout optimization |
| Management/employees | satisfaction with position, career, working conditions, wages and allowances, motivation of personnel, on-time duty performance or delays, problem solving, customer complains, labour productivity |
| CUSTOMERS | |
| Perceptions | on access (as comfort, deficiencies, accessibility to destinations), mobility (as time), safety (for drivers, pedestrians, bicyclist), response time by police, fire, rescue/emergency services, environmental issues (measures to reduce air pollution, noise, damage), behaviour of drivers, travel cost, time, road features (road markings and signs, directional and dynamic signs, conditions of rest areas, maintenance of roads), information provision (information on timing, delays, closures, consultation and planning, handling, information provided on web), payments (electronic payments) |
| Costs and time | price for service, insurance price, safety (goods and passengers), complementary services' price, time to proceed the service, on site operations (orders, payments), timeliness of goods delivery, variety of communication channels, response time, information on goods movement position, assistance with related services (as customs) |
| Flexibility | to change service, time, order details, size, ability and variety of additional services, insurance |

Table 1 (continuous)

| Metrics | Performance Measures |
|-----------------------------|---|
| INVESTORS | |
| Return | earning, liquidity ratios, return through dividends, risk of contributions in case of continuous unprofitable activities |
| Market value | price and value movements, risks of future failures, credit risk of the company |
| Liquidity | demand for securities in open of OTC market |
| GOVERNMENTAL | |
| <i>Accessibility</i> | passenger or freight travel time, distance, condition, capacity, persons or goods per vehicle |
| <i>Mobility</i> | travel time, speed, delays, congestion, road closures, amount of travel, reliability, variability, daily and peak-hour traffic |
| <i>Economic development</i> | new jobs created, jobs supported, goods movement, people movement, regional activity, tax revenue, infrastructure development, costs of pollution, accidents, lost time |
| <i>Quality of life</i> | accessibility, mobility, land use with urban and suburban household density, safety (accidents), air quality, noise, road maintenance with benefits and costs, employment |
| <i>Environmental</i> | air pollution, fuel consumption, land usage, salt usage, hazardous waste, government actions solving environmental problems, amount of recycled material use |
| <i>Safety</i> | number and cost of incidents, infrastructure condition, accident risk, incident response, driver behaviour (as speed, traffic violation), accidents in construction zones, time for accident management |
| <i>System preservation</i> | roads, bridges, highways ride quality, pavement quality, bicycle travel conditions, infrastructure of logistics canters, operating and maintenance costs, budget allocations for system preservation |
| <i>Financial</i> | public cost for transport system, cost/benefit of facility investments (replacement value), number, value, timing of projects for infrastructure improvement, cost for parking fees, occupancy |

Business performance valuation covers the main fields of finance management: profitability, efficiency of resources used, liquidity, capital structure, working capital management, market value. The measures used for such valuations involve financial and non-financial measures of the company. The grouping of measures differs according the scientific literature, however three

major groups could be separated: productivity, liquidity and leverage, and market value (see Mackevičius, 2007, 2009, for explicit grouping analysis). The grouping of financial indicators suggested by the authors is presented in Table 2 with involvement of most commonly used financial indicators.

Table 2

Groups of financial indicators

| Group | Sub-group | Ratios |
|--------------------------------------|------------------------|--|
| Productivity | Profitability | Gross Margin; EBITDA, EBIT, EBT and EAT Margin; ROA, ROE, ROCE; CFO and FCF Margin; Asset efficiency as CFO to Assets, Earnings quality as CFO to EBIT |
| | Expense | Markup; different types of expenses (as operating, cost of goods sold, total) to Sales; Times Interest Earned as EBIT (EBITDA) to Interest Expenses; Service of Interest Obligations as EBITDA minus Capital Expenditures to Interest Expense |
| | Turnover | Turnover of Assets, Inventory, Receivables, Accounts Payable; DSI, DSO, DPO |
| Liquidity, solvency, leverage | Short-term solvency | Current ratio; Quick ratio or Acid-test; Cash ratio; Short-term liabilities coverage by RCF; Liquid Assets to Sales and to Capital Employed; Working Capital to Sales, Cash Conversion Cycle |
| | Gearing, leverage | Debt ratio or Equity ratio; Debt to Equity (or Book Capital); Long-term Assets to Long-term Liabilities |
| | Debt servicing | RCF to Net Debt; different types of CF (as FFO, RCF, FCF) to (Net) Debt; Debt to EBITDA; Cash to Debt; Debt to Net Plant; Debt to Net Worth (Assets minus Short-term Liabilities); New Assets' Financing ratio as CFO plus Investment Inflow minus Dividends to Investment Expenditure; Money Generation Power as CFO to CFO plus Capital Expenditure and Financing Inflow |
| Market or market value | Return to shareholder | EPS; Dividend Payout, Dividends per Share, Dividend Yield |
| | Share price evaluation | PEG; P/B; P/E; P/S; Capitalization; Tobin's Q ratio |

There are different systems proposed for measurement of financial performance although the set of indicators differ according the tasks raised by the analysts or by stakeholder interests as shareholders, potential investors, creditors, suppliers, customers, competitors, state institutions and the company itself. Valuations are made using past, present or future accounting and complementary data and can be addressed to evaluate the overall financial state or specific subject and to assess the factors that lead to such situation. Financial indicators are

used in different financial decision areas as measuring company's financial distress, and coverage of financial debts, solvency, capital structure formation, working capital management, efficiency of assets used, profitability and level of expenditures, market value and shareholders' return, intellectual capital efficiency.

Research methods

The research is based on financial data of enterprises of transportation and storage sector, obtained from

Lithuanian Department of Statistics (Statistics Lithuania). The data covers the period of 2005 – 2011. The methodology of constructing the patterns of financial indicators in order to make valid sectorial analysis varies from the use of factor analysis (Gombola, Ketz, 1983), f-tests (Lancaster, Stevens, 1999), cluster analysis (Gupta, Huefner, 1972; Weiner, 2005; Chan et al., 2007) to the use of fuzzy methods (Tufan, Hamarat, 2003; Baležentis et al., 2012). In this study, in order to develop the financial indicators patterns and to compare the financial results between different years, the factor analysis was performed in separate groups of each 7 years of study (2005 – 2011). When preparing the database of analysis, the extreme values of financial indicators were ignored. There were 63 indicators tested at the beginning, but after the analysis only 17 of them were left. Firstly, these

indicators were used for testing the interrelationships of different financial data. Spearman correlation coefficient was used when evaluating the strength of relations between financial indicators in sense of monotony and testing the zero hypothesis (Čekanavičius, Murauskas, 2002). Relationship was treated as very weak when coefficient was lower than 0.1, weak 0.1 – 0.4, average 0.4 – 0.6, strong 0.6 – 0.8 and very strong with coefficient value greater than 0.8. Secondly, after fulfilling the factor analysis, the indicators that have high correlation with factor were selected. For comparison of financial indicators in separate clusters the mean and median values are presented (IMF, 2006). Factor loadings for individual financial indicators are presented in Table 3 (year 2010).

Table 3

Factor loadings for financial indicators associated with each other

| Factors and indicators | Factor loading | Factors and indicators | Factor loading |
|---------------------------------------|-----------------------|--|-----------------------|
| <i>Financial leverage</i> | | <i>Working capital management</i> | |
| <i>Liabilities to Assets</i> | ,939 | <i>Financial Cycle</i> | ,992 |
| Short-term Liabilities to Assets | ,936 | Current Assets to Sales | ,927 |
| Debt to Assets | ,809 | Inventory Turnover (days) | ,924 |
| Trade Debt Turnover (days) | ,793 | <i>Net worth</i> | |
| FFO to Debt | ,738 | <i>Debt to Net Worth</i> | ,937 |
| Assets Turnover | ,730 | EBT to Net Worth | ,931 |
| FFO to Assets | -,688 | <i>Return on Capital</i> | |
| <i>Return</i> | | <i>ROE</i> | ,867 |
| <i>EBT Margin</i> | ,893 | ROCE | ,737 |
| EBIT to Interest Expenses | ,868 | <i>Miscellaneous</i> | |
| Liquid Assets to Current Liabilities* | ,789 | <i>Receivables Turnover (days)</i> | ,907 |
| ROA | ,526 | Current Debt to Sales | ,849 |

* Not considered as related indicator to this group

The first group of factors clearly defines the financial leverage position, joining indicators stating the results from balance and from cash flow statements (Table 2), although indicators revealed from balance load more heavily on this factor. The second group of indicators reflect the profitability position, although return on assets load is weak and two other profitability indicators fall under separate factor. The groups of working capital management, net worth and return on capital are strongly committed by indicators with high loadings. The last group named miscellaneous as both indicators show different positions from financial analysis viewpoint. The groups of factors of different years were very similar and indicators with highest loadings were used for comparison of companies' financial state between years. The results are presented taking two periods: 2005 – 2007 and 2008 – 2010. The clustering of nearest neighbours was performed in order to find the common definitions of financial characteristics of researched companies, using sub-sector coding. The SPSS 9.0 program was used for application of statistical methods.

Research results and discussion

There are different companies acting in the sector of transportation and storage, so firstly the *common characteristics* derived from statistical and financial

indicators is discussed. The largest number of enterprises is in subsectors of land transport (over 3400 in 2011) and warehousing and support activities (over 1200 in 2011) with growing number of enterprises each year researched. The companies acting in these subsectors are providing services, but require high capital investments (share of tangible assets in average are higher than 65%, compared to air transport subsector with highest average of 37%). These sectors employ the largest number of employees, and comparing their productivity, the highest is in companies of warehousing and air transport subsectors (valuing sales per employee), although the valuation is based only on accounting data and could differ from real situation as outsourcing is common. The highest income earned from export and import activities are in land transport subsector, although the other sectors are engaged in international trade as well.

The interdependence of financial indicators reveal the main characteristics of transportation and storage sector. It can be observed that larger companies in the sector are more profitable and use their assets more efficiently, and, as a result, have more funds to cover debt or interest expenses (Table 4). They are also more efficient in using their workforce as earnings per employee are higher and have greater liability provisions to suppliers, thus use trade credits more extensively. The correlation supports the notion, that smaller companies

have higher leverage rates than larger ones, thus they depend more heavily on debt.

When analysing the financial state relating to capital ownership – state, private, foreign – the efficiency of enterprises having larger share of foreign and local private capital has to be noted: higher productivity of employees, higher profitability, more efficient use of assets in rising sales, better working capital management with shorter financial cycle, but higher levels of debt. Enterprises with larger share of local capital have lower level of wages, lower funds from operations to cover debt and lower earnings to cover interest expenses, thus higher

debt levels come with poor debt servicing. Enterprises with larger share of state capital (acting in all subsectors except air transport) show poor results as most of correlations are in reverse order: the higher the level of state capital, the lower the productivity of employees, lower equity returns (although earnings margin is higher) and asset turnover, poorer working capital management with larger receivables outstanding, lower trade debt and longer financial cycle. The level of credit risk of enterprises having larger share of state capital is lower: lower level of debts, higher level of funds to cover debt, and higher earnings to cover interests.

Table 4

Interdependence of financial indicators

| | SIZE | S/E | W/S | ROE | ROA | AT | EBTM | FCAP |
|------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| SIZE: Assets log | 1,000 | | | | | | | |
| S/E: Sales per Employee log | ,233* | 1,000 | | | | | | |
| W/S: Wages to Sales | | ,681** | 1,000 | | | | | |
| ROE | | | | 1,000 | | | | |
| ROA | ,258* | | | ,426** | 1,000 | | | |
| AT: Assets Turnover | -,268* | | | ,382** | -,242* | 1,000 | | |
| EBTM: EBT Margin | ,265* | | | ,242* | ,839** | -,591** | 1,000 | |
| FCAP: Share of Foreign Capital | | ,431** | | ,319** | | ,397** | | 1,000 |
| SCAP: Share of State Capital | | -,451** | | -,378** | | -,806** | ,484** | -,537** |
| LCAP: Share of Local Capital | | ,248* | -,277* | ,252* | | ,703** | -,392** | ,264* |
| L/A: Liabilities to Assets | -,254* | | -,277* | | -,506** | ,858** | -,716** | ,303** |
| RT: Receivables Turnover (D) | | -,512** | -,402** | -,263* | | -,422** | ,275* | -,605** |
| TD: Trade Debt Turnover (D) | -,354** | | | | -,394** | ,503** | -,500** | |
| LA/L: Liquid Assets to Liabilities | | | | | ,563** | -,695** | ,691** | -,251* |
| FC: Financial Cycle | | -,514** | -,349** | -,327** | | -,531** | ,339** | -,626** |
| FFO/D: FFO to Debt | ,258* | | | ,238* | ,858** | -,440** | ,836** | |
| EBTI: EBT to Interest Expense | ,240* | | | ,306** | ,915** | -,431** | ,929** | |

** - correlation is significant at the 0.01 level (2-tailed); * - correlation is significant at the 0.05 level (2-tailed).

Table 3 (continued)

| | SCAP | LCAP | L/A | RT | TD | LA/L | FC | FFO/D |
|--------------------------------------|---------|---------|---------|--------|---------|--------|-------|--------|
| SCAP: Share of State Capital | 1,000 | | | | | | | |
| LCAP: Share of Local Capital | -,897** | 1,000 | | | | | | |
| L/A: Liabilities to Assets | -,735** | ,717** | 1,000 | | | | | |
| RT: Receivables Turnover (days) | ,510** | -,293* | -,250* | 1,000 | | | | |
| TRDT: Trade Debt Turnover (days) | -,613** | ,647** | ,698** | | 1,000 | | | |
| LA/L: Liquid Assets to Liabilities | ,554** | -,528** | -,838** | ,280* | -,558** | 1,000 | | |
| FC: Financial Cycle | ,564** | -,353** | -,386** | ,903** | | ,362** | 1,000 | |
| FFO/D: Funds from Operations to Debt | ,390** | -,322** | -,728** | | -,535** | ,687** | | 1,000 |
| EBT to Interest Expense | ,360** | -,280* | -,663** | | -,472** | ,651** | ,293* | ,889** |

Correlation of financial indicators allows to draw some important conclusions (Table 4). (a) Companies where the efficiency of employees is higher, have higher levels of wages: the payment for efficient work is higher. Higher wages are paid in companies with lower leverage ratio, i.e. having lower credit risks. (b) Companies resulting with higher return on equity, have higher earnings return, return on assets, manage the assets and working capital (lower financial cycle, lower receivables outstanding) more efficiently. With higher profitability ratios companies are able to service debt obligations better. (c) The ability to have higher sales with less assets not necessarily means higher earnings: in transport sector companies having higher assets turnover have lower levels of earnings return and weaker possibilities to service debt. (d) Longer financial cycle means higher value of net working assets and need for higher volume of funds for service provision. In case of enterprises of

transportation and storage sector longer financial cycle is mostly associated with large receivables.

Cluster analysis helped to describe transportation and storage sector companies with few financial indicators that turned out to be the representatives of six factor groups and can be compared yearly (as presented in Table 3). Financial indicators are presented in mean and median value in order to make more precise valuations and conclusions. In the first period 56 % of enterprises fell into the 4th cluster with relatively low profitability (as EBTM) and high debts, therefore the very high level of ROE can be explained by large portion of debts in capital structure (Table 5). The positive valuation should be pointed on working capital management as financial cycle and receivables turnover in days is relatively short. The other largest share of enterprises – 33% – fell into the 3rd cluster with similar characteristics, except the profitability, which is higher in case of

earnings margin and equity margin, although the level of debts remains high. The financial indicators of both groups reflect the major part of enterprises acting in transportation and storage sector, thus the main problem can be identified: high indebtedness level. The 2nd cluster covers 8% of enterprises acting in warehousing and storage subsector and can be characterized as profitable companies, having relatively low debts in their capital structure, but very high funding demand to cover net working assets, as the financial cycle is longer than one year in average and receivables turnover in days is

higher than average of the most companies acting in the sector. The 1st cluster reflects 3 % of companies, acting in freight air transport subsector and have similar characteristics as the 2nd cluster, except especially high receivables turnover in days, meaning that large proportion of sales remain in accounts receivable and requires higher rates of funding. These two clusters (1st and 2nd) highlights the problem of working capital management, mostly related to high levels of receivables.

Table 5

Results of cluster analysis (in period of 2005 – 2007)

| <i>Financial indicators</i> | <i>1. Profitable with WCR problems</i> | | <i>2. Profitable with high WC requirements</i> | | <i>3. Profitable with feasible WCR, but high debt levels</i> | | <i>4. Low profitability with stable WCR, but high debts</i> | |
|-----------------------------|--|---------------|--|---------------|---|---------------|--|---------------|
| | <i>Mean</i> | <i>Median</i> | <i>Mean</i> | <i>Median</i> | <i>Mean</i> | <i>Median</i> | <i>Mean</i> | <i>Median</i> |
| ROE, % | 15 | 14 | 9 | 6 | 12 | 6 | 79 | 15 |
| EBT Margin, % | 23 | 22 | 12 | 10 | 12 | 9 | 8 | 5 |
| Liabilities to Assets, % | 23 | 23 | 27 | 24 | 47 | 59 | 54 | 60 |
| Financial Cycle (D) | 459 | 431 | 406 | 396 | 85 | 81 | 33 | 33 |
| Debt to Net Worth, % | 12 | 21 | 25 | 18 | 77 | 69 | 31 | 38 |
| Receivables Turnover (D) | 465 | 412 | 121 | 120 | 91 | 93 | 50 | 53 |
| <i>Subsector:</i> | <i>Freight air transport</i> | | <i>Warehousing and storage</i> | | <i>Taxi operation, urban and suburban passenger land transport, service activities incidental to air transportation</i> | | <i>Service activities incidental to water and land transp., cargo handling, sea and coastal freight water transp., freight transport by road and removal services, passenger air transport, and other transportation support activities.</i> | |

Three clusters were exposed when clustering the enterprises in the second period (2008 – 2010). The largest share of enterprises (64 %) fell under 3rd cluster with such characteristics as low or negative margins and especially high debt levels in capital structure (Table 6). Higher ROE rate can be explained by low equity values in enterprises as a result of retained losses during the second period. As financial cycle and receivables turnover in days is relatively short, it could be stated, that the highest risk is from high debts. The 2nd cluster covers 28% of enterprises having average profitability, high debt

levels and still feasible working capital management results. The other 8% of enterprises fell under 1st cluster and are representatives of warehousing and storage subsector. As it was in the first period, the biggest problem of this subsector is high receivables, although they are determined by the specific features of warehousing and storage activities and remains as the source of risk in growth and downturn periods. Other financial indicators show relatively good situation with average profitability and low debts.

Table 6

Results of cluster analysis (in period of 2008 – 2010)

| <i>Financial Indicators</i> | <i>1. Average profitability, low debts, high WCR requirements</i> | | <i>2. Average profitability, high debts, feasible WCR</i> | | <i>3. Low or negative margins, especially high debts, but low WCR</i> | |
|-----------------------------|---|---------------|--|---------------|---|---------------|
| | <i>Mean</i> | <i>Median</i> | <i>Mean</i> | <i>Median</i> | <i>Mean</i> | <i>Median</i> |
| ROE, % | 7 | 2 | 3 | 2 | 14 | 9 |
| EBT Margin, % | 6 | 0,5 | 7 | 0,03 | 0,5 | -3 |
| Liabilities to Assets, % | 30 | 41 | 48 | 64 | 94 | 75 |
| Financial Cycle (D) | 411 | 572 | 101 | 83 | 16 | 24 |
| Debt to Net Worth, % | 29 | 50 | 119 | 89 | 20 | 36 |
| Receivables Turnover (D) | 98 | 127 | 108 | 104 | 46 | 44 |
| <i>Subsector:</i> | <i>Warehousing and storage</i> | | <i>Urban and suburban passenger land transport, service activities incidental to land, water, and air transportation</i> | | <i>Service activities incidental to land transportation, cargo handling, taxi operation, freight air transport, freight transport by road and removal services, passenger air transport, and other transportation support activities.</i> | |

The analysis of two periods, which can be named as period before the financial crisis and economic downturn and after, requires the comparison of enterprises bankruptcy rates. The previous analysis made using financial indicators of operating companies does not reflect the status of highly disturbed businesses. In order to compensate it, the median of financial indicators

were compared to changing number of enterprises and the number of bankrupt enterprises in each subsector (Table 7). The data were taken from Statistics of Lithuania for the period of 2005 – 2011. The financial indicators are presented as median, pointing the mid-value of all indicators in the subsector.

Table 7

Statistical and financial data of enterprises by subsector in 2006 – 2011

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|--|------|------|------|------|------|------|------|------------------------------------|------|------|------|------|------|------|------|
| Number of bankrupt enterprises per year | | | | | | | | ROA, % | | | | | | | |
| H49 | 40 | 32 | 25 | 62 | 249 | 142 | 106 | H493 | 2,5 | 1,1 | 0,2 | -0,8 | -2,9 | -1 | 0,2 |
| H50 | .. | .. | 2 | .. | .. | 1 | 2 | H494 | 2,7 | 5,2 | 3,1 | -2,4 | -4,8 | 4,7 | 6,9 |
| H51 | .. | 1 | 1 | .. | 1 | 1 | .. | H521 | 4,8 | 0,2 | 10,7 | 8,8 | 3,9 | 3,3 | 0,3 |
| H52 | 13 | 5 | 7 | 15 | 17 | 31 | 17 | H522 | 5,3 | 6,3 | 8,4 | 5 | 2 | 5,8 | 8,4 |
| Share of bankrupt enterprises compared to active ones, % | | | | | | | | Debt to Equity, % | | | | | | | |
| H49 | 8 | 4 | 3 | 11 | 50 | 28 | 20 | H493 | 16,2 | 0 | 6,2 | 3,6 | 9,7 | 3 | 7 |
| H50 | .. | .. | 29 | .. | .. | 13 | 40 | H494 | 57,8 | 76 | 114 | 101 | 31,9 | 28,2 | 39,5 |
| H51 | .. | 25 | 17 | .. | 17 | 17 | .. | H521 | 34,5 | 21,9 | 11,9 | 11 | 37,1 | 8,7 | 14,3 |
| H52 | 8 | 3 | 4 | 9 | 10 | 13 | 8 | H522 | 5,3 | 6,2 | 4,1 | 5,4 | 3,7 | 0,3 | 0 |
| Change in number of active enterprises compared to previous year, % | | | | | | | | Receivables turnover, times | | | | | | | |
| H493 | .. | 78 | -46 | -13 | -41 | -10 | 6 | H493 | 15,9 | 12,7 | 12,6 | 14 | 9,8 | 11,8 | 10,2 |
| H494 | .. | 180 | 37 | -148 | -30 | 25 | 11 | H494 | 8,2 | 8,4 | 8,1 | 8,4 | 6,4 | 7,6 | 8,3 |
| H521 | .. | 3 | -17 | 10 | -4 | 10 | 3 | H521 | 6,8 | 6 | 5,8 | 4,1 | 6,3 | 7,7 | 7,5 |
| H522 | .. | 20 | 18 | -27 | 5 | 59 | -22 | H522 | 7,4 | 7,9 | 7,6 | 9,2 | 7 | 7,9 | 9 |

Note: H49 Land transport, H50 Water transport, H51 Air transport, H52 Warehousing and support, H493 Other passenger land transport, H494 Freight transport by road and removal services; H521 Warehousing and storage; H522 Support activities for transportation

Source: Statistics Lithuania

The changing number of enterprises and number of bankrupt enterprises disclose that the impact of economic downturn was the heaviest in 2009 and 2010 (Table 7). For example, the number of bankrupt enterprises in other passenger land transport, freight transport by road and removal services compounded in 50 % and 28 % (in 2009 and 2010 respectively) of companies acting in this subsector. Enterprises of warehousing and support activities were less disturbed as the bankrupt enterprises compounded in 10 and 13 % (in 2009 and 2010 respectively) and the number of enterprises was growing by 24 % (59 in number) in 2010. The brief analysis of financial indicators shows that the situation in the transportation and storage sector is not unified, although the year 2008 indicates the difficulties faced by enterprises, in major part with decreased profitability and higher debt levels. Situation in 2011 was better compared to 2008 and 2009, but remains tense.

Conclusions

The PMS analysed suggest different perspectives and criteria for performance measurement, and all of them include the financial valuation although in different scale. The measures used in PMS can be classified as internal and external involving financial and non-financial measures. Metrics used for performance measurement in transportation and storage sector enterprises were classified as *internal* (service position, revenue, costs, earnings, assets, travel costs, management/employees) and *external* as customers (perceptions, costs and time, flexibility), investors (return, market value, liquidity), governmental (accessibility, mobility, economic development, quality of life, environmental, safety, system preservation, financial). The grouping of financial indicators suggested

by authors is productivity, liquidity/solvency/leverage, and market value. The set of indicators used for performance valuation differ according the tasks raised by the analysts or by stakeholder interests as shareholders, potential investors, creditors, suppliers, customers, competitors, state institutions and the company itself.

The general characteristics of the sector revealed from statistical and financial data show that businesses in average require high capital investments, crediting of receivables, and debt. The enterprises are highly involved in international trade. Larger companies in the sector are more profitable, use their assets more efficiently, and, as a result, have more funds to cover debt or interest expenses, and are more productive as well. Enterprises having larger share of foreign and local private capital are more efficient compared to those having larger share of state capital, although the latter have lower credit risk. Longer financial cycle means higher value of net working assets and need for higher volume of funds for service provision. In case of enterprises of transportation and storage sector longer financial cycle is mostly associated with large receivables.

In the period of 2005 – 2007, the major part of enterprises acting in transportation and storage sector had high indebtedness level, but were relatively good in managing working capital and earnings. The smaller part of enterprises can be characterised as profitable companies, having relatively low debts in their capital structure, but very high funding demand to cover net working assets. In the period of 2008 – 2010, the major part of enterprises had low or negative margins and especially high debt levels in capital structure, as a consequence of economic downturn, but relatively low working capital requirements. The smaller part of enterprises faced a problem of high receivables, although

they are determined by the specific features of warehousing and storage activities and high receivables remains as the source of risk in growth and downturn periods. The impact of economic downturn was the

heaviest in 2009 and 2010, with highest bankruptcy rates, decreased profitability and higher debt levels. Situation in 2011 was better compared to 2008 and 2009, but remains tense.

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FINANCIAL VALUATION OF BUSINESS PERFORMANCE: THE CASE OF LITHUANIAN TRANSPORTATION AND STORAGE SECTOR

Summary

The challenges raised by the constantly changing business environment requires to develop the adequate system for business performance measurement and valuation. This issue is nonetheless critical for transportation and storage sector, the development of which is important not only to separate business entities, but also highly contributes to the sustainable society, considering environmental, quality of life, sustainable business issues. There are many performance measurement systems (PMS) that involve different perspectives and criteria for valuation, however in order to make the detailed and adequate valuation, the combination of measures corresponding the particular business case is necessary. The non-financial measures as being the core are argued by different scientists analysing the PMS, though the financial measurement remains important in all of them. In this paper the selection of measures was related to the availability to make the financial valuation of sector enterprises and comparable the results between years. The aim of this paper is to disclose the main PMS and metrics used for performance measurement in transportation and storage sector financial valuation. The paper is divided into three sections. The first presents the background literature, consisting of PMS, metrics, and financial indicators analysis. The second presents the methods used in empirical research, which are factor analysis, clustering, correlations. The last concludes the results of empirical research and provides the discussion on Lithuanian transportation and storage sector characteristics and changes in financial state.

PMS is interpreted as a tool for balancing multiple measures (cost, quality, flexibility and time) across multiple levels (organisation, process and people) (Neely, 2005). The PMS are applied in different companies, regardless of sector, and are important for transportation and storage sector (Stoop, 1992; Isoraite, 2004, 2006). The famous, mostly applied in businesses and discussed in scientific literature PMS are: Balanced Scorecard (BSC), developed by Kaplan and Norton (1992), The Performance Prism (Neely et al., 2001), the Strategic Matrix of Sink and Tuttle (Tangen, 2004), TOPP performance model (Rosstadas, 1998), The Performance Pyramid (Cross, Lynch, 1992), The Theory of Constrains (TOC) (Striteska, Spickova, 2012), The Performance Measurement Matrix developed by Keegan et al. (Neely et al., 2000). Process Performance Measurement Systems (PPMS) are a special type of PMS that should be used in process-oriented organizations (Glavan, 2011).

The PMS analysed suggest different perspectives and criteria for performance measurement, and all of them include the financial valuation although in different scale. The balanced set of measures allows to evaluate the performance of the business process in different levels and identify the improvement areas. The dimensions used can be classified in different ways: qualitative and quantitative measures; “hard” and “soft” measures; financial and non-financial measures; result and process measures; measures defined by their purpose (result, diagnostic, and competence), efficiency, effectiveness, and changeability and the six classic measures (cost, time, quality, flexibility, environment, and ethics) (Fagerhaug, 1999; Neely et al., 2000; Glavan, 2011).

The metrics used in transportation and storage sector varies although measures the functions (internal and external), focuses on time, quality, availability, cost, profit and reliability, may be financial (cost and revenue) or non-financial (service and productivity), and includes success factors for all business levels (Krauth et al., 2005 a, b; Lambert et al., 2001; Asadi, 2012; Alcantar, Loranca, 2013; Kumar, 2013). Corresponding to in-depth surveys made by Krauth et al. (2005 a, b), Christopher (2007), Langrey et al. (2009), Palsaitis (2010), Lambert et al. (2001); Asadi (2012); Karlaftis, Kepaptsoglou (2012), Alcantar, Loranca (2013), Kumar (2013) the metrics used for performance measurement in transportation and storage sector enterprises were classified as internal (service position, revenue, costs, earnings, assets, travel costs, management/employees) and external as customers (perceptions, costs and time, flexibility), investors (return, market value, liquidity), governmental (accessibility, mobility, economic development, quality of life, environmental, safety, system preservation, financial). The grouping of financial indicators is explicitly analysed by Mackevicius (2007, 2009). The grouping suggested by authors is productivity (profitability, expenses, turnover), liquidity/solvency/leverage (short-term solvency, gearing/leverage, debt servicing), and market value (return to shareholders, share price evaluation). The set of indicators used for performance valuation differ according the tasks raised by the analysts or by stakeholder interests as shareholders, potential investors, creditors, suppliers, clients, competitors, state institutions and the company itself.

The general characteristics of the sector revealed from statistical and financial data show that businesses in average require high capital investments, crediting of receivables, and debt. The enterprises are highly involved in international trade. Larger companies in the sector are more profitable, use their assets more efficiently, and, as a result, have more funds to cover debt or interest expenses, and are more productive as well. Enterprises having larger share of foreign and local private capital are more efficient compared to those having larger share of state capital, although the latter have lower credit risk. Longer financial cycle means higher value of net working assets and need for higher volume of funds for service provision. In case of enterprises of transportation and storage sector longer financial cycle is mostly associated with large receivables.

In the period of 2005 – 2007, the major part of enterprises acting in transportation and storage sector had high indebtedness level, but were relatively good in managing working capital and earnings. The smaller part of enterprises can be characterised as profitable companies, having relatively low debts in their capital structure, but very high funding demand to cover net working assets. In the period of 2008 – 2011, the major part of enterprises had low or negative margins and especially high debt levels in capital structure, as a consequence of economic downturn, but relatively low working capital requirements. The smaller part of enterprises faced a problem of high receivables, although they are determined by the specific features of warehousing and storage activities and high receivables remains as the source of risk in growth and downturn periods. The impact of economic downturn was the heaviest in 2009 and 2010, with highest bankruptcy rates, decreased profitability and higher debt levels. Situation in 2011 was better compared to 2008 and 2009, but remains tense.

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THE EFFECT OF PSYCHOLOGICAL CONTRACT FULFILLMENT (PCF) ON AFFECTIVE AND NORMATIVE COMMITMENT AMONG INDIAN AND BULGARIAN EMPLOYEES

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Abstract

The literature on psychological contract fulfilment (PCF) suggests that meeting the implicit and unwritten contractual expectations of employees should result in positive outcomes for organizations such as increased job satisfaction, organizational commitment, lower turnover of employees, among others. Most of the studies have been conducted in Western, individualistic societies where the nature of employment relationship is mostly transactional in nature compared to collectivist cultures where it is based on moral obligations and relational in nature. Thus, in collectivist cultures employees may take it for granted that employers should meet their psychological contract expectations. Thus, violations of PCF may have more profound negative effects on employee attitudes in collectivist cultures than in individualistic cultures and thus exhibit lower affective and normative commitments. We tested these hypotheses using two comparable samples from India, a relatively more individualistic country, and Bulgaria, a relatively more collectivistic country. The results indicated that when PCF were higher, there were no significant differences between the Indian and Bulgarian samples on their level of commitment. However, collectivist Bulgarians reported much lower affective and normative commitments than more individualistic Indians when PCF was lower. Thus, regardless of national culture, higher levels of PCF tend to have positive benefits for organizations yet breaches of PCF tend to have more negative consequences for organizations in relatively more collectivist cultures.

Keywords: Psychological Contract Fulfilment – Normative Commitment – Affective Commitment – India - Bulgaria.

JEL classification: M28.

Introduction

During the past decade or so, the interest of researchers in the study of psychological contract and its effect on work-related outcomes has increased. From a normative perspective, the issue has focused on how organizations can enhance the psychological contract fulfilment of employees given the positive influences psychological contract fulfilment has on their work attitudes and behaviors. Robinson & Rousseau (1994) reported that about one half of the employees in their study reported a breach of violation of their psychological contract. Broadly defined, psychological contract has been defined as “the unwritten agreement that exists between the employer and the employee that contains a set of mutual expectations” (Flood, Turner, Ramamoorthy & Pearson, 2001). In addition, research on psychological contract has broadly been divided into two streams: one stream of research that focuses on the contents and measurements (Anderson & Schalk, 1998) and the second stream of research on the outcomes of psychological contracts (e.g., Flood, et al., 2001).

Research on culture suggests that cultural orientations can have an effect on work attitudes and behaviours (Ramamoorthy & Flood, 2002). Of the four cultural dimensions identified by Hofstede (1980), I/C orientation is perhaps the most researched cultural orientation variable in the area of industrial-

organizational psychology and human resource management literature. Specifically, individualistic orientations emphasize formal written contractual obligations that specify the contractual obligations of parties: the employer and the employees. Collectivist orientations, on the other hand, define employment contracts less formally and emphasize the mutual obligations of the employers and the employees that transcend beyond the formal, written contracts (Gomez-Mejia & Wellbourne, 1991; Ramamoorthy & Carroll, 1998). Several studies have also shown that collectivist orientations are positively related to work attitudes such as loyalty, outcome, team obligations, organizational commitment, and tenure intent. Hence, there are reasons to believe that psychological contract fulfilment or breach may have different consequences on outcomes depending upon the I/C orientations of cultures.

In the present study, we examine the relationships between psychological contract fulfilment and affective and normative commitments in India and Bulgaria, two countries that vary on the IC dimension with India being relatively more individualistic than Bulgaria yet are similar in several other aspects. India and Bulgaria had been dominated by socialistic ideologies of centralized planning in the past and both countries liberalized their economies towards free market since early 1990s. In both countries, growth of information technology sector has driven the economic growth (Wagstyl, 2004).

Further, foreign direct investment in both countries has increased steadily during the last two decades as a result of economic liberalization (Meredith & Hoppough, 2007; Onay, 2007). Indian and Bulgarian cultures have been relatively more collectivistic than Western societies but at a relative level Indian culture has been more individualistic than Bulgarian culture (Spector, Cooper, Sanchez, O'Driscoll, et al., 2001; Hofstede, 1980; Topolova, 1997). Thus, we can suggest that these two countries are similar in several respects but vary on the IC dimension. In addition to foreign direct investments by Indian entrepreneurs such as Laxmi Mittal in Bulgaria, bilateral trade during the period 2006-2008 between these two countries show that Indian imports from Bulgaria has more than doubled and exports to Bulgaria has grown by approximately 60% as per the statistics provided by the Indian embassy in Bulgaria. Thus, given the growth of bilateral trade and similar transition to free-market economy a study of these two cultures is both timely and interesting.

The hypotheses proposed in the study were tested using survey data collected from comparable technical employees in the high technology sector in India (Bangalore) and Bulgaria (Sofia). Both of these cities serve as the information technology centers in their respective countries. Because there is some evidence that occupational differences on value orientations exist, a comparable sample may rule out industry or occupational effects on the findings (Woldu, Budhwar & Parkes, 2006). We next review the literature to develop our hypotheses.

Literature Review and Hypotheses Development

To arrive at a single definition of the nebulous concept of psychological contract has posed problems to researchers. Levison, Price, Munden and Soley (1962) described it as the sum of mutual expectations between the organization and the employee. Perhaps the most widely recognized definition of psychological contract has been provided by Rousseau (1998) who defines it as "an individual's belief regarding the terms and conditions of a reciprocal exchange relationship between the focal person and another party" (cf Herriot and Pemberton, 1996). Further, psychological contract encompasses both transactional and relational elements, are often unwritten in nature, and contains a set of mutual expectations. Despite the nebulous nature of the construct, psychological contract fulfilment or breach has desirable or undesirable consequences for the employers (Anderson & Schalk, 1998).

Psychological contract emerges when one party believes that a promise of future return has been made and thus an obligation has been created to provide future benefits (Flood, et al., 2001). Thus, there are two aspects to the psychological contract fulfilment. The first aspect refers to the extent to which employees' perceive that the employer has fulfilled his/her part of the bargain. The second aspect refers to the extent to which the employer believes that the employee has fulfilled his/her part of the exchange relationships. From employees' perspective, psychological contract fulfilment may arise when they

perceive that their expectations regarding important aspects of the exchange relationships (e.g., pay, benefits, work schedules, job contents, etc.) have been fulfilled by the employer. If they perceive that their expectations have not been met, perceived breach or violation of psychological contract may occur. From the employers' perspective, in return for the fulfilment of their part of the bargain, employers may expect that the employees fulfil their in-role and extra-role behaviours, conform to the norms of the organization and the profession, and continue their membership with the organization. Although mutual expectations between the employers and the employees may converge, Rousseau (1998) suggests that psychological contracts can only be evaluated from the side of the individual employee.

Psychological contract violations have been shown to adversely influence employees' work attitudes and behaviours such as job satisfaction (Fielden & Whiting, 2007), organizational commitment, tenure intent, and role performance (Zhao, Wayne, Glibkowski, & Bravo, (2007), organizational commitment, tenure intentions, and role performance, organizational commitment and tenure intentions (Flood, Turner, Ramamoorthy, & Pearson, 2001). In the present study, we focus specifically on affective and normative commitments. Affective commitment refers to the state in which an employee identifies with the organization and its goals, and wishes to maintain membership in the organization. Normative commitment, on the other hand, refers to the personal loyalty and moral obligations towards the organization (Allen and Meyer, 1996). A third form of commitment suggested by Meyer and Allen is known as continuance commitment. Continuance commitment refers to the investments an employee has made (e.g. pay, benefits, vesting of pensions) that make it difficult for the employee to leave the organization. Schalk & Roe (2007) support the dynamic nature of psychological contract violations and argue that not only psychological contract violations may affect organizational commitment at a given time but may also decrease or increase under circumstances that are perceived to be critical by the employees. Additionally, one cultural variable that may moderate the relationship between psychological contract fulfilment and commitment may be the individualism-collectivism orientation.

Hofstede (1980) introduced individualism-collectivism (I/C) to the cross-cultural management literature as a cultural level variable. While individualism emphasizes individual identity and individual rights, collectivism emphasizes collective rights and group identity. One of the key defining characteristics of I/C is the emphasis placed on individual goals versus collective goals. Individualists place a greater emphasis on self interest, personal goals and personal achievement compared to collectivists. Competition is considered to be a key behavioural characteristic of an individualist to achieve his/her goals (Probst, Carnavale & Triandis, 1999). Collectivists consider the subordination of one's personal goals for the sake of the larger collective to which one belongs and seek to achieve results through cooperation. Whenever individual goals and group goals

are in conflict individualism places the rights and goals of to which he/she belongs, whereas collectivism places the group's rights and goals ahead of the individual goals/rights (Ramamoorthy & Carroll, 1998).

While individualism emphasizes the contractual or agency nature of employment relationships, collectivism emphasizes mutual moral commitments that transcend agency relationships (Gomez-Mejia & Wellbourne, 1991; Parkes et al., 2001). In collectivist societies, commitment to the organization, loyalty, and collective welfare are emphasized and expected from employees. In return for giving up one's individual goals and rights, organizations are expected to take care of the employees beyond the obligations prescribed under the formal contracts. Further, prior studies (Gomez-Mejia & Wellbourne, 1991; Ramamoorthy & Carroll, 1998; Ramamoorthy, Gupta, Sardesai & Flood, 2005) also indicate that I/C orientations predict different reactions to different management practices.

Given that individualistic cultures focus mostly on contractual nature of employment relationship and collectivist cultures emphasize the moral nature of employment relationship, one should expect that I-C orientation should moderate the relationship between PCF and commitment in the following manner:

H1: Under the assumption that Bulgarians are more collectivist than Indians, Bulgarian employees should report lower affective commitment than Indian employees when psychological contract fulfilment is lower.

H2: Under the assumption that Bulgarians are more collectivist than Indians, Bulgarian employees should report lower normative commitment than Indian employees when psychological contract fulfilment is lower.

Method and Measures

We used survey methodology to collect data from the participants. In both countries, we collected data from employees in the information technology sector. As stated earlier in the paper, the impetus to market liberalization in both countries was considerably provided by the high technology sector and hence considered appropriate for this study. The response rates were in excess of ninety percent, barring employees who were absent from work on the day the surveys were distributed. Surveys in India were in English because the workforce was well educated in English. In Bulgaria, we translated the English surveys to Bulgarian with the help of a bilingual professor at a leading university. Another bilingual faculty member translated the Bulgarian questionnaire to English to assess the equivalence of the surveys. The results indicated that the translated survey was accurate and equivalent to the English version of the survey.

The total sample consisted of three-hundred-sixty-seven (367) employees of which two-hundred-nineteen (219) were from India and one-hundred-forty-eight (148) were from Bulgaria. Among the Indian sample, 185 employees were men, and 13 employees were women. The rest of the employees did not indicate their gender in

the individuals ahead of the rights and goals of the group the survey. Among the Bulgarian employees, 58 were men and, 70 were women with the rest not indicating their gender. In terms of age, 81 respondents (India = 32 and Bulgaria = 49) reported their age as between 18 and 25 (coded as 1); 229 respondents (India = 184 and Bulgaria = 45) reported their age as between 25 and 35 (coded as 2); 40 respondents (India = 3 and Bulgaria = 37) identified their age as between 35 and 45 (coded as 3); 26 respondents (India = 16 and Bulgaria = 10) identified their age as between 45 and 55 (coded as 4); and 1 employee from Bulgaria identified his/her age as over 55 (coded as 5) with the rest being missing data.

We conducted an analysis of variance with gender as the grouping variable (0 = missing data, 1 = men and 2 = women) and the variables used in the study within the Indian and Bulgarian samples separately. No statistically significant differences were observed.

For this study, we used established and validated measures. All the measures used a five points Likert-type scale with "1 = Strongly Disagree" and "5 = Strongly Agree" as anchors. Internal consistency reliabilities (Cronbach's alpha) were computed within each sample separately. We measured affective commitment using five items from the Organizational Commitment Questionnaire (Mowday, et al., 1979) with a reliability of 0.85. We measured normative commitment using Meyer and Allen's (1991) six items. The reliability coefficient of these items was 0.77. We measured psychological contract fulfilment using seventeen items that asked the participants to indicate whether their expectations have been or not using an anchor of "1 = not at all to 4 = very much". Sample items were pay, career, job autonomy, career development, skill development, etc. The coefficient alpha for these seventeen items was 0.83.

We used age, country, and gender as control variables in the study. Gender was coded as 0 = men, and 1 = women. Country of data collection was coded as 1 = India, and 0 = Bulgaria. We used moderated regression analyses (Pedhazur, 1982) to test the two hypotheses proposed in the study by entering the control variables in the first step, main effects in the second step, and finally the interaction terms. We assessed the statistical significance of the set of predictors using the incremental variance F-ratio tests and t-tests for the betas associated with the predictors. In order to decompose the significant interaction terms we used -1 and +1 standard deviations of the predictors to derive the equations for Bulgaria and India. Results

Table 1 presents the means and standard deviations of the variables used in the study.

Table 1

Means and Standard Deviations*

| Variable | India | Bulgaria |
|-----------------------------------|----------------|----------------|
| Psychological Contract Fulfilment | 3.03 (0.53) | 2.97 (0.63) |
| Affective Commitment | 3.95 (0.64) | 3.58 (0.83) |
| Normative Commitment | 2.95 (0.73) | 2.90 (0.87) |

Equality of variance tests did not show any statistically significant differences between the two samples. We performed moderated regression analysis as indicated earlier with nationality as the moderator. The results of the moderated regression predicting affective and normative commitment for India and Bulgaria under conditions of both low and high psychological contract fulfilment are given below in Table 2.

Table 2
Effect of PCF on Affective and Normative Commitment in Bulgaria and India (z-scores)

| Psychological Contract Fulfilment | Affective Commitment | | Normative Commitment | |
|-----------------------------------|----------------------|----------|----------------------|----------|
| | India | Bulgaria | India | Bulgaria |
| Low | 0.47 | -1.71 | 1.2 | -1.11 |
| High | 0.73 | 0.53 | 0.7 | 0.5 |

As indicated in the table, when psychological contract fulfilment is high, both Indian and Bulgarian employees did not differ in terms of their affective (0.73 vs 0.53) and normative commitment (0.70 vs 0.50) in a statistically significant way. That is, we did not observe any statistically significant differences between the Indian and Bulgarian employees in terms of their commitment to the organization when PCF is high. However, when the PCF is low, Bulgarian employees reported much lower affective commitment (-1.71 vs 0.47) and normative commitment (-1.11 vs. 1.2) compared to the Indian employees. Based on the results, we can conclude that from an organizational perspective, meeting the psychological contract obligations of employees is desirable whether the employees come from a relatively more individualistic cultures like India or relatively more collectivistic cultures like Bulgaria. However, failure to

meet the psychological contract obligations of employees seems to have a more profound effect in more collectivistic cultures like Bulgaria. That is, employee commitment to the organizations may be very adversely affected in collectivistic cultures than in individualistic cultures when their psychological contract obligations are unmet.

Conclusion

The present study examined whether national culture varying on the dimension of individualism versus collectivism moderated the relationships between PCF and two forms of commitment, normative and affective commitments. The results generally supported the hypotheses that under conditions of low levels of PCF, employees from more collectivistic cultures like Bulgaria reacted more negatively than employees from more individualistic cultures like India. Yet, when PCF is high, there were no significant differences indicating that meeting employee's psychological contract obligations would yield positive results for the organizations. We should also note some limitations of the present study. First, we used nationality as a surrogate for cultural orientations and future studies should attempt to measure the I/C orientations of employees as there could be variances within a culture in terms of individuals' cultural orientations. Second, we collected the measures using a survey methodology and common method bias couldn't be ruled out completely. Nevertheless, the study results suggest that longitudinal studies that measure the PCF and employee attitudes could be a worthwhile avenue for future research. Finally, our study is limited to two cultures, namely, India and Bulgaria. Future studies should also attempt to extend the research into a multi-country study that varies on I/C orientations.

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THE MANIFESTATION OF TEACHERS' LEADERSHIP: A CASE OF LITHUANIAN SCHOOLS

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Abstract

The research explores the features school teachers's leadership in the perspectives of distributed leadership. The understanding of this phenomenon is based on the assumptions that teachers, first of all, become leaders of their own personal ambitious goals and learning and then apply their educational competence for leading the students' learning and initiating the transformations in school activities. The empirical findings in the sample of Lithuanian school teachers reveal the peculiarities of teacher leadership and the possible obstacles for developing this practice in schools.

Keywords: leadership, teacher leadership, distributed leadership.

JEL Classification: O15, I21.

Introduction

The recent research on the leadership in educational institutions has been focusing not only on the school principal's role in leadership, but also to the importance of teacher's leadership. The scholars (Harris, 2003; Frost, 2008; Lambert, 2003, 2011) argue that teacher as leader contributes a lot to the improvement of teaching and learning processes and collaboration both inside and outside the school. This kind of leading teacher is interested not only in his students, but also in the issues of the whole school community (Spilane, Halverson, Diamond, 2003); he distributes and involves others into the leadership ideas and in that way helps forming the network of leaders.

In this context, however, teachers' leadership is primarily understood as the means for achieving high quality teaching and learning at school (Harris, Muijs, 2005). Therefore, this paper focuses on the teacher's as leader's activities that may influence students' learning.

The learner-centred approach and learning paradigm implies the new roles for a school teacher. *On the individual level* teaching is followed by the meaningful learning for understanding instead of traditional instruction; teacher has to evaluate the individual talents and prior experience of a student. The collaboration and cultural diversity becomes important issues in *the classroom environment*. *On school organization level* the teacher's involvement in school performance planning and assessment becomes essential. *On community level* he is involved into the dialogue with parents, other community members and partners. *The international level* school activities call for teacher's

participation in different educational and partnership projects (Pranskūnienė, 2011).

Balevičienė and Urbonavičienė (2012) define the features of a good school and emphasize that the main role in the educational process is attributed to a teacher. He has to be an exemplary authority for the students, their parents and colleagues. The teacher is respectable since he constantly develops his competence, is open for cooperation, timely submits the feedback on students' achievements and strives for the educational goals by applying the traditional and innovative learning techniques.

The analysis of research studies (Harris, Muijs 2005; Waters, Marzano, McNulty, 2004) on teacher leadership implies that it directly influences the students' learning outcomes and the success of learning in professional networks with other teachers. A leading teacher participates in different learning communities, demonstrates the team working skills, perceives his own learning as lifelong process, and cares about the institutional effectiveness. He is a kind of person who sets the ambitious goals for personal career and consequently teaches his students to be reflective and self-directed in their learning.

The empirical studies on leadership (Southworth, 2002; Žvirdauskas, 2007), however, basically refer to the school principal role as well as the evaluation of teachers' opinions on the leadership effectiveness of their school principals. Therefore, the **research problem** could be stated as follows: how do school teachers evaluate their own leadership on the individual level and school's team level? What self-leadership features are characteristic for their learning and development?

The aim of the article is to reveal the key features of teacher leadership among Lithuanian school teachers.

Methodological viewpoints:

- Leadership phenomenon is treated as a process and not as an official position in the organization occupied by a person (Hogan, Hogan, 2001). The power of leadership is exerted through the leaders' interaction with his followers. Leadership is perceived as the process of influencing people by the power of leader's personality that motivates and inspires for attaining organizational goals.
- Learning organization concept that relates the role of leadership to the stimulation of changes, transformations and the lifelong learning process (Senge, 1996). A leader is responsible for creating a learning environment where followers learn how to learn, critically reflect on experience and develop their professional potential. Learning organization assumes that leader's role may be distributed and this depends on task, situational factors, and competence level.
- The concept of distributed leadership defines leadership activities as distributed widely across multiple roles performed not only by school principals, but all the members of school community: deputy heads, teachers, members of school councils, boards or governing bodies and students. The main aim of teacher leadership is to enhance students' learning, influence colleagues, contribute to school climate and culture, and to improve their teaching practices working in collaboration (Spillane, 2005). Teacher leadership is build on openness, trust, concern, respect and appreciation.

The **research methods** applied in this study are as follows: the analysis of research literature with the purpose to reveal the characteristics of school teacher leadership; and the questionnaire based survey of Lithuanian general education school teachers.

Research literature background: features of teacher leadership

The modern approach (Jokinen, 2005; Goleman, Boyatzis, McKee, 2002) to leadership emphasizes the inspirational power of this phenomenon based on emotional and social impact for the followers' self-actualization, consciousness and moral maturity. Such kind of a leader demonstrates strong willingness and self-motivation, eagerness for changes and transformations. While analysing the leadership concept in education within this new leadership paradigm, the system approach to organizations is applied. It explains that the turbulent external environment calls for the changes in the organization system. The ability to learn becomes critical in the system change (Argyris, Schon, 1996). This idea was widely developed in the concept of learning organization, the leader of which is able to create the environment for developing people's personal mastery. He meets the challenges of creating the mechanisms of

constant learning in the organization and to develop his own competence.

The concept of leadership in learning organization holds the idea of distributed leadership which allows different teachers to emerge as leaders in different situations. It could be stated then that a teacher is able to influence the learning of all the members of school community: his personal development, student learning, peer learning and school management as well.

The relationship and interaction play here an important role as well as the **positive teacher's attitudes towards leadership phenomenon**. These are the underlying values for his leadership practices at school and initiatives to implement the ambitious goals both in school environment and outside the school.

The research on school leadership and leadership development (Harris, 2003; Haris, Muijs, 2005; Lambert, 2003) focuses on the essential aim of school – **improving student learning outcomes** (Spillane, 2005). Within the context of teacher leadership, it is related to helping students to successfully learn and become the self-directed learners in the future. In this sense on classroom level the teacher leadership is understood as motivation and influence, not as power and authority. A number of researchers argue that teacher has to raise students' learning motivation and inspire them for meaningful learning. The researchers in educational sciences Balevičienė, Urbonavičienė, 2000; Stanikūnienė, 2007) emphasize that students responsibility should be developed and the understanding that the amount of knowledge gained does not ensure the success in their future lives. Instead, a teacher has to develop their metalearning competence and to provide them with the effective learning techniques and methods to be successfully applied in their future daily activities and self-development.

For this very reason, one of the ambitious professional goals of leading teacher is to educate his students in a way they become the responsible leaders of their own lives, able to reflect on their experiences and practices and learn from their mistakes and success. The educational process, then, relies on discovery, guidance, reflection and innovative teaching methods that foster student understanding instead of instructing on textbook material.

Teacher's abilities to lead students learning is centered on his prevailing understanding about **personal learning initiatives** and efforts for his own competence development in strive for ambitious goals both in professional practice and personal life. In order to help students to obtain the skills of learning how to learn, a teacher has to have a sufficient learning and metalearning competence (Stanikūnienė, 2007) and to demonstrate the sufficient level of self-directedness in his own learning processes. This implies that teacher, in a sense, has to be the leader of his own aspirations. A number of scholars (Ash, Persall, 2000; Lambert, 2003; Little, 2002) name it as internal leadership or ability to lead oneself. They claim that teachers as leaders develop their system thinking, are open to explore and evaluate the ways others look into the world and with the means of critical reflection develop their own personal vision. The context

of external transformations urges them to be quite ambitious for the future and know clearly what they need to become the experts in their professional field, to know their strengths and weaknesses and prioritize learning.

The personal learning initiatives have to be referred to as the practice of self-directed learning of teacher, since this concept entails the self-leadership features: ability to set learning goals, to develop the image of self, to strategize the ways of learning, to experiment with and practicing new behaviours, thoughts and feelings, to monitor and evaluate the progress of the planned learning process and its outcomes (Brockett, Hiemstra, 1991).

More than that, the successful self-directed learning is based on the *skills of reflection and self-analysis*. Reflection enhances teacher's understanding on the nature and underlying values of his professional activities. Critical reflection enables a teacher to question the existing goals, actions strategies and the reasons of the strategies applied. According to Cranton (2002), Hatton and Smith (1995), the most effective critical reflection takes place in the collaborative practice with the teacher's colleagues he trusts.

The research literature on teacher leadership and distributed leadership at school (Muijs, Harris 2005; Lambert, 2003; Spillane, 2005) almost always includes reference to the collaborative activities of teachers, i.e. *working and learning in teams* where teachers are encouraged to dialogue and reflect on their practice, be open for advice and critiques of their work, thus continuously striving to improve their expertise.

This is based on the assumption that each person in school organization (including students) has different skills and competencies, predispositions, interests, attitudes and prior knowledge. Elmore (2000) claims that some people will do things better than others, either as a function of their personal preferences, their experience or their knowledge and argues therefore, that „distributed leadership acknowledges multiple sources of guidance and direction, following the contours of expertise in an organisation, made coherent through a common culture” (Elmore, 2000, p.15).

The main efforts of this collaborative interaction among the teacher colleagues are focused on improving their abilities to create a positive educational and learning environments in their classrooms. As Ritchie and Woods (2007) argue, trust, strive for mutual benefit and good will in sharing experiences both as success stories and failures become crucial in this teacher interaction.

So, summing up, teacher leadership is defined as empowering and creative activity by giving motivational power and influence based on his educational competence with the vision of improving teaching and learning at both individual (student) and organizational levels.

The key features of teacher leadership, as identified in the research literature above, can be summarised as follows:

- The teaching activities are focused on the enhancement of successful student learning for understanding;

- Teacher perceives himself as a leader for his own professional career and ambitious goals;
- Teacher leadership is exercised through self-directed learning;
- Teachers distribute their leadership in teamwork and collaborative practice with the aim to share and develop their expertise;
- Self-analysis and reflection are necessary for successful teaching practice and leadership.
- Teacher leadership relies on values of trust, openness, collaboration and recognition of person's uniqueness.

Research design

The empirical survey aimed to reveal the key features of teacher leadership on the viewpoint of teachers.

The design of the questionnaire was based on the separate questions disclosing what factors are important for the teacher leadership. The study questionnaires featured the following main topics that united various variables: successful teaching/learning; personal leadership orientations, attitudes to leadership, initiative, self-assessment and reflection; lifelong learning and learning to learn; working and learning in school teams; and questions about the respondent.

Evaluating the factors, which discloses the teacher leadership manifestation, 4 points Likert scale was used (from “1” – as do not agree at all, to “4” – totally agree). Besides that, the respondents were able to point out that they do not know how to answer the question. Actually just several respondents pointed out that they do not know agree they or not. One interesting result could be mentioned: the part of respondents (13 percent of them) mentioned that they do not know if it is important to create rotation possibilities for teachers and they do not know do they want to have heading position in the school.

A grouping of answers for the analysis of the results of the survey was done. Analysing the most manifested factors the answers with “3” (agree) and “4” (totally agree) were joined. The factors, what reveals very low manifestation (“2”) or (“1”) also were joined in the findings of the survey.

Data analysis (using SPSS 16.0): statistical analysis carried out by applying methods of descriptive statistics and discriminant (non-parametric Kruskal Wallis test) analysis.

The influence of work experience, qualification, type and location of the school to teacher leadership manifestation were checked by non-parametric Kruskal Wallis test with the chosen ($p \leq 0,05$) level of significance.

The survey data was collected in the end of 2012 (November - December). The questionnaires were prepared in a paper form. The total sample consisted of 1144 teachers from 15 municipalities of Lithuania. The detailed demographic characteristics are submitted in Table 1.

Table 1

Demographic characteristics of teachers

| | | 2012 | |
|------------------------|--------------------|-------------|------------|
| | | N | % |
| Work experience | 0 - 4 years | 45 | 3,9 |
| | 5 - 9 years | 95 | 8,2 |
| | 10 – 19 years | 315 | 27,5 |
| | 20 years and more | 681 | 59,5 |
| | No data | 9 | 0,8 |
| Qualification | Teacher | 121 | 10,6 |
| | Head teacher | 555 | 48,5 |
| | Teacher supervisor | 421 | 36,8 |
| | Teacher - expert | 25 | 2,2 |
| | Non-certified | 6 | 0,5 |
| | No data | 16 | 1,4 |
| Location | City | 530 | 46,3 |
| | District centre | 179 | 15,6 |
| | Countryside | 430 | 37,6 |
| | No data | 5 | 0,4 |
| Type | Elementary school | 12 | 1,0 |
| | Primary school | 193 | 16,9 |
| | Secondary school | 226 | 19,8 |
| | Gymnasium | 557 | 50,4 |
| | Pro-gymnasium | 93 | 8,1 |
| | Others | 37 | 3,2 |
| | No data | 6 | 0,5 |
| Total | | 1144 | 100 |

Findings of the empirical study: *manifestation of Lithuanian teachers' leadership*

As findings of the survey show Lithuanian school teachers tend to positively evaluate the leadership as a phenomenon (see Table 2) in general. The only statement about the dominance of leadership received the approval of almost one third of respondents and implies that the concept of leadership may refer to *power and authority*, instead of *motivation and influence*. Once it comes to the personal leadership orientations, the teachers become not so sure about their ambitious goals to „take the managerial position at school in the future” (only 15.1 % agree). This implies that management position is most often associated with the official status in organization, but not leadership. More than that, 70,6 percent of respondents know exactly what they wish doing in 10 years.

Table 2

The evaluation of statements on leadership attitudes and orientations, %

| Leadership attitudes and orientations | I do not know | Disagree | Agree |
|--|---------------|-------------|-------------|
| The effective organizational performance is impossible without a true leader | 1,3 | 2,9 | 95,7 |
| Leaders tend to dominate over the others | 2,3 | 69,4 | 28,4 |

| | | | |
|---|------|-------------|-------------|
| Better results are always achieved by the organization which has good leaders | 1,0 | 3,8 | 95,2 |
| I tend to be involved into new ideas | 0,4 | 9,2 | 90,5 |
| I tend to help other people | 0,3 | 1,2 | 98,5 |
| I would like to take the managerial position at school in the future | 10,2 | 74,7 | 15,1 |
| Good leader is able to motivate people to put more efforts than it was demanded for | 1,6 | 3,1 | 95,2 |
| I know what I wish doing in 10 years | 13,9 | 15,4 | 70,6 |

The comparison of study results according to the respondents' work experience revealed that the ambitious goals for the career are attractive for the teachers with 5-8 years of experience (as compared to older persons who work at school for more than 20 years). Nevertheless, the findings reveal that almost all respondents demonstrate the leadership potential: they tend to give support too others and be involved in new ideas. This could be related to the peculiarities of teacher's activities: he has to be the supporter for students learning. So, the evaluation of successful teaching and focus on students learning outcomes received the highest scores (see Table 3).

Table 3

The evaluation of statements on successful teaching and student learning outcomes, %

| Successful teaching and student learning outcomes | I do not know | Disagree | Agree |
|--|---------------|----------|-------------|
| Our teacher's teaching is of high quality and all students make progress | 6,5 | 8,6 | 85,0 |
| Teachers explain the subject in a way students understand everything and learn effectively | 4,7 | 9,9 | 85,4 |
| Students participate and win in the national and international competitions in different subjects. | 5,5 | 21,2 | 73,2 |
| Students successfully pass the final examinations | 5,9 | 5,4 | 88,7 |
| Students in our school are taught to be responsible for themselves | 1,4 | 7,2 | 91,4 |

Almost all respondents agree that teachers provide with the high quality teaching, emphasize the development of understanding and especially the development of students' responsibility. This feature is essential for students' future lives and learning. However, the significant differences were noticed while analysing the study results according to the different schools types. 30,7 percent of teachers in regional schools at countryside disagree that their “*students participate and win in the national and international competitions in different subjects*”. Accordingly, this statement received only 14,0 percent of disagreement of teachers in big cities. The comparison of the results allows making the assumption that the teachers in country's regional areas are not so

empowered to strive for the excellence in students' learning, i.e. the educational environment created for students does not enable them to demonstrate the exceptional learning outcomes.

This conclusion may be supported by teachers' perceptions on their own schools. The significant differences were observed in the evaluation of the statement „*My school is exceptional and unique*”. Teachers in city schools tend to strongly agree with this statement (almost 80 % agree), while almost one third of teachers in the villages disagree. Therefore, the future research should focus on the conditions to be created in a school for developing effective educational environment for students' to successfully learn in the periphery as well.

As it was mentioned in the research literature, students' success in learning depends on their competence how to learn. A teacher is the one who knows the techniques of metalearning and is able to lead a student towards the self-directed learning.

All the questionnaire positions on lifelong learning and learning to learn received the highest evaluations by the teachers (see Table 4). Teachers are eager to learn, to find new information and overcome learning obstacles; they are open for public debate on the lack of their competences. The statement „*I treat problems like challenges*” received a more moderate evaluation. This proves the earlier assumptions that teachers do not tend to express lots of initiative and ambition for innovative acting. The significant differences of the mentioned statement were observed in the respondent groups with different period of work experience. 92,5 percent of teachers with 5-9 years of pedagogical experience were more eager to consider problems as challenges, as compared to the teachers with 20 and more years of experience (82,0 % agree).

Table 4

The evaluation of statements on lifelong learning and learning to learn, %

| Lifelong learning and learning to learn | I do not know | Disagree | Agree |
|---|---------------|----------|-------------|
| Learning is one of my personal goals | 1,8 | 4,6 | 93,7 |
| I know what I have to do to become the professional in my field | 1,8 | 3,2 | 94,9 |
| If I need the information, I will find the way to detect it | 0,4 | 1,3 | 98,4 |
| If something is really interesting for me, I never mind the learning difficulties | 0,6 | 3,0 | 96,4 |
| I treat problems like challenges | 2,5 | 13,4 | 84,2 |
| I compare my learning outcomes with the goals set. | 1,9 | 6,2 | 91,8 |
| I tell people what I am good at and what I lack | 1,4 | 5,6 | 93,0 |
| I analyse the ways I learn | 2,4 | 8,4 | 89,2 |

The competence of learning to learn is based on the reflection skills. So, the respondents claim that they analyse the ways they learn (89,2 % agree) and always *apply reflection as a tool for detecting mistakes and*

success (88,6 % agree). On the other hand, part of the respondents think that *reflection consumes their valuable time* (39,1 % agree). This may imply that the teachers' workload is not evenly distributed. More than that, the senior teachers who have been working more than 20 years also think of reflection as time consuming activity (42,4 % agree).

While discussing the reflection concept, we have to consider the positive school environment that encourages teachers to be open and critical. The respondents were asked to evaluate their own schools. The majority of them agree that their school is reliable (89,5 % agree) and responsibility is valued (85,2 % agree). However, the evaluation on honesty prevailing in the schools received less approval by teachers (67,1 % agree). This may impede the successful work and learning in schools teams.

The general perception of working in teams is very positive; 97,8 percent of respondents agree that the atmosphere has to be open for disclosing vulnerable issues and doubts (see Table 5).

Table 5

The evaluation of statements on working and learning in teams, %

| Working and learning in teams | I do not know | Disagree | Agree |
|--|---------------|----------|-------------|
| While working together people have to develop relationship with no fear to tell their complains and doubts | 0,5 | 1,7 | 97,8 |
| I like learning from the experience of others | 0,4 | 0,7 | 98,8 |
| I value the opinions of other people on the issue under analysis | 0,7 | 0,9 | 98,4 |
| I tell my opinion while discussing | 1,1 | 9,9 | 88,9 |
| In the discussions I am not afraid to reveal my incompetence | 3,2 | 21,9 | 74,8 |
| In general I prefer listening to speaking | 1,8 | 30,6 | 67,6 |

Still, when it comes to the practice of teachers, they tend to prefer listening to speaking (67,6 % agree). It proves the presumption about the lack of openness in teamwork activities. The research results show that the main reasons of this passiveness may reside on the organizational or even national level. More than a half of respondents believe that *current training system does not encourage teacher leadership* (53,1 % agree) and they feel quite unsafe as *the rotation possibility for school members to work in another educational institution temporarily* could not ensure the maintainance of their workplaces (31.5 % agree).

Concluding remarks

The research literature emphasizes the phenomenon of teacher leadership based on the concept of learning organization and distributed leadership which emphasizes the empowerment of every school community member to

take leader's position with the aim to ensure successful teaching and learning activities.

The changing role of a teacher emphasizes the necessity to plan and organize teaching and learning process in different ways. So, teachers become leaders of transformations and changes in school communities.

The empirical findings reveal that the teachers in Lithuanian school demonstrate the positive attitudes to leadership; however, they lack the personal ambitions to become leaders with a clear life vision and the aims for official career of school principals.

Teachers tend to more strongly value the personal traits such as openness and initiative in discussions, the ability to listen and give support to other people. It could be related to their knowledge and/or their involvement into the project activities.

Teachers still have fear of participating in the rotation and working temporally in the other educational institutions.

The highest percentage of disagreement in the groups of teachers was observed in the assessment of their own school as unique organization that follows the principles of honesty and responsibility

The statistically significant differences between different teacher respondents groups imply that the experienced teachers have to devote their time for improving the self-confidence in discussion and the competence of younger colleagues.

The idea of distributed leadership that reflects inspirational and motivational dimensions of leadership has to be developed in schools communities, since it empowers every teacher to perceive himself as a leader of learning processes both of students and other members of school community.

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THE MANIFESTATION OF TEACHERS' LEADERSHIP: A CASE OF LITHUANIAN SCHOOLS

Summary

The teacher leadership phenomenon outlines the school teacher's initiatives and involvement into the different learning communities and professional networks where he demonstrates the team working skills, perceives his own learning as lifelong process, and cares about the institutional effectiveness. A leading teacher, first of all, perceives the importance of forming his own ambitious goals for personal career and inspires other community members, especially students, for changes and effective learning. The research literature on teacher emphasizes the empowerment of every school community member to take leader's position with the aim to ensure successful teaching and learning activities. The main features of teacher leadership are as follows: successful teaching/learning; personal leadership orientations, attitudes to leadership, initiative, self-assessment and reflection; lifelong learning and learning to learn; working and learning in school teams.

The empirical studies on leadership basically focus on the school principal role and present the evaluation of teachers' opinions on the leadership effectiveness of their school principals. Therefore, *the research problem* could be stated as follows: how do school teachers evaluate their own leadership on the individual level and school's team level? What self-leadership features are characteristic for their learning and development? The aim of the article is to reveal the key features of teacher leadership among Lithuanian school teachers. The research methodology is based on the concepts of distributed leadership in education and learning organization context where leader's role may be distributed according to task, situational factors, and teacher's competence level.

The empirical data was collected by means of questionnaires. The total sample of survey consisted of 1144 teachers from 15 municipalities of Lithuania. The respondents have participated in the activities of the national level project "Time for Leaders". Therefore, it was assumed that their opinions are of great value and with the deep understanding on leadership phenomenon in general and teacher leadership specifically. The sample of respondents represented a variety of general education school types: elementary school, primary school, secondary school, gymnasium, progymnasium.

The empirical findings reveal that the teachers in Lithuanian schools demonstrate the positive attitudes to leadership; however, they lack the personal ambitions to become leaders with a clear life vision and the aims for official career of school principals. The Lithuanian teachers perceive the importance of teaching for understanding and especially the development of students' responsibility which helps them to guide their future lives. Teachers tend to strongly value the personal traits such as openness, trust and initiative in discussions, the ability to listen and give support to other people, but the main obstacles for fostering the leadership culture and practice may be related to some organizational issues such as the lack of relevant training system which encourages teacher leadership. Teachers still have fear of participating in the rotation and working temporally in the other educational institutions. The highest percentage of disagreement in the groups of teachers was observed in the assessment of their own school as unique organization that follows the principles of honesty and responsibility.

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LEXICOGENETIC PROCESSES IN MODERN LITHUANIAN LANGUAGE: CREATION AND USE OF NEOLOGISMS

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Abstract

The paper analyses recent neologisms of the Lithuanian language as a part of general linguistic change, employing theoretical framework of lexical semantics as a basis for investigation of neologisms. The object of the paper is the database of Lithuanian neologisms in which recent Lithuanian neologisms are presented. The article aims at classification of main lexicogenetic processes in the Lithuanian language: creation of words by the means of derivation using sources of the Lithuanian language and foreign languages, borrowing and translation of words and their adoption according to the structural rules of language. The article also deals with onomasiological approach regarding concepts and their expression through language as well as with contextual factors influencing development of neologisms. Ultimately, conclusions are drawn, providing evaluation of evolution trends of the Lithuanian language based upon analysis of modern neologisms.

Keywords: neologism, lexicogenetic process, onomasiological approach, borrowing, semantic change.

JEL Classification: Z19.

Introduction

Modern world is marked by major changes occurring at basic levels of fundamental spheres of our society: new technologies, scientific discoveries and shifts in social life influence human thought, behaviour standards and, consequently, language of society and individuals. Due to rapid growth of technological processes and global changes, new concepts are created on a daily basis to meet the needs of naming new phenomena and thus contributing to the development of language. Whereas changes in language are inevitable, adoption of new terms and words is a continual process, signifying the development of society. In the view of the above, authors of the present article believe that it is vital to take a closer look at changes in language, namely, coinage of neologisms, in order to better understand transformations our society and thought are undergoing. In Lithuanian context neologisms are of special significance as the Lithuanian language, being one of the few living languages that preserved archaic forms and structure, close to that of Proto-Indo-European, is strictly supervised by language purists, striving to preserve the individuality and original character of the language. Introduction of new words in the Lithuanian language is an on-going however highly controversial process: the problem of adoption of foreign words, coining new terms, usage of already existing ones is the usual target of discussions. Therefore this article is seen by the authors as a relevant attempt to review and evaluate processes that take place during adoption and creation of new words in relation to general changes of language.

The aim of the present article is to analyse the creation of neologisms in the Lithuanian language: their social and cultural background, linguistic processes related to the shifts of meaning, and their impact on language as a system. The article also aims at classifying the creation of neologisms according to the theoretical guidelines of lexical semantics and grasping the present and future tendencies of this process. To support the research, theoretical framework of lexical semantics was chosen. Insights of such scholars as Dirk Geeraerts, Pavol Štekauer, Andreas Blank and others served as the basis for analysis. Scope of the practical research was limited to an internet source, the Database of neologisms of the Lithuanian language, a database created in 2011 and renewed ever since by the Institute of Lithuanian language as a part of META-NORD project, financed by the European Commission. Currently the database contains over 1,300 entries with neologisms and examples of their use in press, internet and mass media. Analysis of selected examples of the neologisms taken from the database is designed for evaluation of certain characteristics of development of the Lithuanian language: shifts in the meaning, transformations of semantic features of words, introduction of foreign words in language as a system.

Neologisms of Lithuanian language and related linguistic issues were investigated in such publications as P. Skardžius "Lietuviški tarptautinių žodžių atitikmenys" ("Lithuanian equivalents of international words") (1973), V. Rudaitienė and V. Vitkauskas "Vakarų kalbų naujieji skoliniai" ("New borrowings from Western languages")

(1998), article by P. Skardžius “Verstiniai ir reikšminiai skoliniai” (“Translated and semantic borrowings”) (1938), J. Girčienė doctoral thesis “Naujųjų skolinių atitikmenys: struktūra ir vartoseną” (“Equivalents of new borrowings: structure and usage”) (2003), set of articles “Skoliniai ir bendrinė lietuvių kalba” (“Borrowings and standard Lithuanian language”) (2005). However, formation and adoption of neologisms remains an area of discussions and clashing viewpoints, as processes of their creation are considered by some scholars to be too broad and unstable to be investigated applying a unified scientific method. Therefore, this article aims at attempting to employ the theory of lexical semantics in order to classify and analyse neologisms presented in the database of Lithuanian neologisms. Although analysis of neologisms, especially borrowings, is applied abundantly in various works, as specified above, authors of this article believe that their attempt will be useful for classification of Lithuanian neologisms into specific categories in order to evaluate common trends of their creation.

Neologisms and lexical semantics: patterns of formation of new words

A neologism (from Greek *neo* = “new” + *logos* = “word”) is denoted as a word, term or phrase which has been recently created (coined) – often to describe new concepts, or to reshape older terms in newer language form (Levchenko, 2010). Neologisms are especially useful in identifying inventions, new phenomena, or old ideas which have taken on a new cultural context. Neologisms are by definition “new”, and as such are often directly attributable to a specific individual, publication, period, or event. They can also refer to an existing word or phrase which has been assigned a new meaning. Neologisms tend to occur more often in cultures which are rapidly changing, and also in situations where there is easy and fast propagation of information. They are often created by combining existing words or by giving words new and unique suffixes or prefixes. Neologisms may also be created through abbreviation or acronym, by intentionally rhyming with existing words, or simply through playing with sounds.

As neologisms appear to be a subject of language change, their analysis to a great extent is related with semantic changes of words, shifts and combinations of existing meanings. In lexical semantics, one of the base propositions lies on the assumption that changes in language are motivated by the processes of mind, or as pioneer of lexical semantics theory Breal states “language is translation of reality, a transposition in which particular objects only appear through the intermediary of the generalizing and classificatory efforts of thought” (Bréal, 1897). In the course of development of lexical semantics, structuralist approach contributed significant innovations regarding the object of lexical semantics: language is seen as system, components of which are interrelated and meanings of which are interdependent. Principles of language usage may be described employing a well-known analogy with a chess game, introduced by Ferdinand de Saussure: “the value of each piece in a

game of chess is entirely conventional. Which moves can be made with a pawn or a rook cannot be read off the pieces themselves, but is conventionally determined by the rules of game” (Saussure, 1916). Therefore, according to the structuralist approach, changes in language are systematic, they are guided by intralinguistic and extralinguistic factors, nevertheless, they should be examined applying holistic approach. As linguist Von Humboldt’s suggested, language should be viewed not as a stabilized product but rather as a dynamic force, with which people(s) shape the world (Von Humboldt, 1836). In addition to the viewpoint of Von Humboldt, linguistic change should be evaluated not as a merely historical change, but rather as a proof of ever-present development and versatility of language: “empirical studies have confirmed the model of an orderly heterogeneous system in which the choice between linguistic alternants carries out social and stylistic functions, a system which changes with accompanying changes in social structure” (Weinreich, Labov, Herzog, 1968). Therefore, linguistic changes should be viewed as structural process; neologisms in this regard may be considered to be signs of constant evolution of language in relation to the social context. In addition, creation and adoption of neologisms is a process marked by high cognitive motivation, or as linguist Andreas Blank puts it, [adoption of innovation] is “a pragmatic decision mainly based on the innovation’s good cognitive performance” (Blank, 1999), i.e. main motivation is convenience of immediate usage in a particular language system which in its turn is influenced by cultural and social context.

Furthermore, a crucial point in investigation of lexical-semantic processes is the choice between onomasiological and semasiological perspective. As Kurt Baldinger expresses, “semasiology considers the isolated word and the way its meanings are manifested, while onomasiology looks at the designations of a particular concept, that is, a multiplicity of expressions which form a whole” (Baldinger, 1980). Adopting the attitude of Geeraerts, onomasiological changes include all processes of “lexicogenetic mechanisms” – word formation, word creation (creation of entirely new roots), borrowing, blending, truncation, ellipsis, or folk etymology (Geeraerts, 2010). Therefore, in this article the view that all linguistic changes are motivated by occurrence of new concepts which must be expressed in new words while following the rules of a particular language is applied.

Proceeding with the evaluation of changes in language, major models of construction of new words must be taken into consideration. As this process is a subject of both lexical and semantic changes, it might be difficult to find a consistent system covering all the models due to focus of different linguistic schools on different aspects of creation of neologisms. Authors of the article employed a theoretical layout of main neologism-formation processes proposed by linguist Dirk Geeraerts, it was chosen as a set of analytical guidelines due to clear grouping of major types of changes and is useful in applying it for the analysis of Lithuanian neologisms (however, his framework is not entirely consistent with processes of the Lithuanian language, as it is designed for the English language, therefore some

aspects of it are discussed in this article more elaborately than the others). Every linguistic process related with creation of words, or “lexicogenetic mechanism” (Geeraerts, 2010) is briefly described as follows:

- Morphological word formation, or employment of morphological rules of derivation, composition, compounding, etc.;
- Transformation of sound shape of existing words, as clipping or blending;
- Borrowing of new words from another languages (calque, or word-to-word translations, loan words in their original form);
- Random creation of words, by the means of onomatopoeia or other, usually adopted in a particular situation and then transferred to the common discourse (cf. Paul’s “occasional meaning” as a source of this type of words – “the representational content that an interlocutor associates with a word when he uses it, and which he expects the hearer to associate with the word as well”) (Paul, 1920);
- Semantic extensions of existing words, or various changes of meaning: semantic specialization and generalization, shifts towards more negative or positive meaning, metaphoric and metonymic use of words.

In Tournier’s classification, linguistic changes would be grouped into morpho-semantic neologisms (derivation and compounding), semantic change (extension of existing meaning), morphological neologism (clipping, etc.) all of which are processes within a certain language, and external neologisms, i.e. loan words (Tournier, 1985). As for Tournier’s terminology, the present article focuses on both internal and external neologisms.

Lexicogenetic trends in modern Lithuanian language

After analysis of words presented in the database of Lithuanian neologisms it was determined that the new words may be grouped under the following categories. It is possible to notice that Geeraerts’ classification of “lexicogenetic mechanisms” regarding the Lithuanian language had to undergo some changes due to different nature of Lithuanian language in respect to the English language (e.g. clippings are harder to create as all words have endings attached to roots).

- Morphological word formation (derivation) using words of purely Lithuanian origin;
- Borrowing of new words from another languages (calque, or word-to-word translations, or loan words in their original form and mixed type of borrowing and derivation – modification of a borrowing (usually, root) according to derivation rules of the Lithuanian language);
- Semantic extensions of existing words, or various changes of meaning.

All five categories of formation/adoption of new words are further discussed, providing examples and their analysis.

Derivational word formation using the sources of the Lithuanian language

Except from borrowing of words from foreign languages, the current type of creation of new words is the most productive in the Lithuanian language. Such words should be distinguished from other newly coined Lithuanian words that are formed in order to fill the gap of translation when an equivalent to a foreign word is needed. This subtype of word formation should be regarded as a part of onomasiological process described in above section – a new concept emerged requires for a new word to be coined. Words are created to describe new situations, new cultural concepts and phenomena. Here a reflection of Štekauer’s principle of “creativity within productivity constraints” may be seen quite clearly: “it is the interaction between the conceptual, onomasiological, and the onomatological¹ levels that – within the limits of productive types and rules and the relevant constraints – provides certain space for a creative approach to word-formation” (Štekauer, 2005). In derivational coinages versatility of the Lithuanian language, based on its synthetic structure, may be noticed. Derivational neologisms might be further divided into two main formal types of word formation: compounding and derivation (prefixation and/or affixation).

To begin with, compounding is important mechanism in revealing structural nature of language and importance of context. Linguist Brekle considered newly coined compounds to be indicators of language productivity by stating that “pragmatic, con- and contextual conditions <...> have to be satisfied for an existing underlying structure to be activated by a speaker and to be interpreted correctly by a listener” (Brekle, 1978). Thus, compounds are coined upon basis of existing linguistic structure under conditions of a certain situation and phenomenon and their role in cognitive system of language speakers is strongly related to context. Compounding in the Lithuanian language usually occurs in the form of “noun + noun” formation; it is applied to coin words relating to various spheres of social, cultural and everyday life: *balsadėžė* (“vote-box”), meaning the box to put the voting bulletins into, *brūkšniažodis* (“hyphen-word”), meaning a hyphenated word, *drambliaskrydis* (“elephant-flight”), an attraction at amusement park, *ledgrąžtis* (“ice-drill”) a device used to drill ice in winter fishing, *purvasklaida* (“mud-media” cf. “mass-media”) a word used to denote a certain type of mass media concentrating on scandals in a manner resembling tabloid press. The examples above reveal that compounding marks a different attitude towards various processes, and language is advancing at development of new, more accurate wordings for naming certain things. Moreover, compounding is mostly designated for convenience of language speakers and is an example of language economy principle: a compound instead of a two-word phrase is easier to use.

¹ Štekauer refers to onomatological level as the one where onomasiological contents is embodied morphologically, or “*Morpheme-to-Seme-Assignment Principle*” which may be further employed for more detailed analysis of derivational neologisms. (cf. Štekauer, 2005).

Another important and productive type of word formation is affixation. Affixation is defined as a morphological process whereby an affix is attached to a root or stem, which sometimes changes the class and aspects of meaning of the word (Matthews, 1991). Affixes are employed to create all main classes of words: nouns – *aršuolis* (“fierce man”) by adding a suffix *-uol* to the adjective *aršus* (“fierce”); *įpaveldinti* (“to include into heritage”) by adding both prefix *-į* and suffix *-inti* to the noun *paveldas* (“heritage”); *pupytiškas, -a* (“dolly-like”) by adding a suffix *-iškas* to the noun *pupytė* (“dolly”). As to specified examples, versatility of the Lithuanian language in formation of words by the means of derivation may be noticed. Due to synthetic nature of its structure, the Lithuanian language provides an endless source of generation of derivatives from the same stem, as affixes carrying various meanings may be added to modify root and thus create new words to denote new semantic aspects of existing roots.

One of the transitional processes between derivation and loanwords is derivation using foreign roots. On the basis of research varied out by Livia Kortvelyessy, results of which reveal that “new complex words come into existence at the crossroads of the sociolinguistic factors and the pressure of productive onomasiological types, word formation types, and morphological types” (Kortvelyessy, 2009), the “pressure” or the fact of neologisms being subject to rules of word creation of adopting language, is of great importance. Therefore this part focuses on neologisms that have a foreign root and underwent a process of derivation in Lithuanian language not as a part of borrowing or trying to find corresponding equivalent, but to describe new phenomenon in Lithuanian context. Such coinages usually are marked by a strong contextual significance, and are coined individually and later spread among others language users. The following expressions may serve as instances: *asilografas* (lit. “donkey-graph”, a person writing nonsense), *forumiena* (“forum material”), *nuobodologija* (“boredomology”, boredom + *-ology* from Gr. *-logos*), *elektrotaka* (“electrical flow” cf. *kraujotaka* “blood flow”). Process of derivation using foreign roots is especially productive in the Lithuanian language due to the fact that it is synthetic and borrowing of plain roots is almost impossible, as it would not allow for the word to be a part of syntactic relations between parts of speech.

Borrowing and translation of words from another languages

The largest amount of new words in introduced in the Lithuanian language from other languages. Whereas in today’s global context the English language is of great importance, major part of borrowings and loan words come from it. As the English language has become to a large extent a global language, adoption of English words may be viewed in the light of recent theory by Joachim Grzega, called BGE (Basic Global English), one of the main goals of which is “command of a generally useful vocabulary plus vocabulary-extension tools” (Grzega, 2008). Motivation for creation of list of basic necessary

words was “inclusion of word frequency principles and encyclopaedic-transcultural principles” (ibid). Therefore, adoption of foreign (especially of English origin) words into Lithuanian language may be evaluated as a process similar to that proposed by Grzega: adoption of loanwords becomes a sign of language globalization. The loanwords adopted into the Lithuanian language may be divided into three subgroups: loan words (words, borrowed from a foreign language in their original form), Lithuanian derivatives of loan translations (usually, a root of foreign word is modified by affixation), loan translations (calque) (translation of foreign expression to correspond to the concept).

Usage of loan words in the Lithuanian language is often an object of controversial discussions; loanwords (in contrast to loan translations) not rarely are viewed as invasion into Lithuanian language, destructing its structure and purity. However, other viewpoints maintain that adoption of loanwords is an inevitable process of language evolution. In the database of Lithuanian neologisms, loanwords constitute the largest part of all entries. They are adopted from various spheres, beginning with terms of internet communication: *blog’as* for “blog”, *demotyvacija* for “demotivation”, *memas* for “meme”, *feisbukas/veidaknygė* for “Facebook”. Various terms from the fields of medicine (*abilitacija* “abilitation”, *doplerografija* “doplerography”, *fibrokolonoskopija* “fibrocolonoscopy”, *miostimuliacija* “miostimulation”) social life (*afterpartis* “afterparty”, *dženderizmas/genderizmas* “genderism”, *eidžizmas* “ageism”, *flešmobas* “flashmob”) legal (*dekriminalizacija* “decriminalization”, *legitimumas* “legitimacy”) and many other areas. Lithuania’s joining of the European Union gave rise to a lot of neologisms formed by employing prefix *-euro*: *eurofederalistas, -ė* “eurofederalist”, *eurooptimistas, -ė* “euro-optimist”, *europarlamentaras -ė* “member of European Parliament”, *europėizmas* “europeism”, *euroromanas* “euronovel”, *euroskepticizmas* “euroscepticism”, etc. It may be noticed in the present instances that the words mostly are modified by affixation – adding a Lithuanian ending but not changing the original meaning of word. In addition, English interjections as “wow” (Lithuanian pronunciation *vau*, for the lack of sound “w”), “bla bla bla”, were adopted in their original form, thus proving influence of foreign words that come mostly from mass media and television on everyday language.

Designation of loan translation, or calque appears to be the same as the above discussed loanwords – to render the concept as close to the original as possible; however if in the first case this onomasiological process is performed by borrowing a word in its foreign form, calque translation aims at finding or coining an equivalent using the means of target language. As a result of this process, new Lithuanian words, describing foreign concepts, were coined: *anglakalbis* “English-speaking”, *asmensargis* “body guard”, *gamyklabutis* “loft”, *išparduotuvė* “outlet”, *kavavirė* “coffeemaker”, *vaizduoklis* “[computer] monitor” and others. It is easy to notice that Lithuanian words were coined using both derivation and compounding. Some of these neologisms

became widely used and some still remain to be examples of single time usage.

Semantic changes of existing words

Neologisms may also be coined by changing the meaning of existing words. Linguist Geeraerts distinguishes four main types of semantic change that are usually adopted in classifications of this kind: specialization, generalization, metaphor and metonymy (Geeraerts, 2010). Specialization is a process when a word acquires a new specific meaning, which is applied in a narrower sense, e.g. word *akcentuacija* ("accentuation") which was often used in the Lithuanian language as a term denoting a language stress system, recently developed a new meaning related with the sphere of psychology and now also denotes a certain personality disorder. Another example could be the adjective *apsauginis* ("protective, preservative, guarding") which developed a specific meaning denoting a body guard (and changed the word class from adjective to noun respectively).

Another process dealing with semantic shifts which could be evaluated as opposite to that of specialization, is termed generalization and refers to providing a word with a new meaning which has a broader semantic field than its usual meaning. For example, the word *ambasadorius* ("ambassador") which was used in political context and meant diplomatic official representing a country, underwent generalization and today is quite often used to denote any representative, e.g. the heading from internet press „Technikos universiteto dėstytojas S.Pukalskas: Lietuva gali tapti benzino su 15 proc. bioetanoliu ambasadore“ ("Lecturer of technical university S. Pukalskas: Lithuania may become an ambassador of petrol with 15% bioethanol") (Stonis, 2011). Another curious example of generalization was recorded in informal discourse, where a new sort of mushrooms was found in Lithuanian forest and due to the lack of new term, they were unofficially called "balsevičiai", i.e. the name of family who first found them.

One more important process of semantic shift is metonymy, or in the words of Geeraerts, a "semantic link between two readings of a lexical item that is based on a relationship of contiguity between the referents of the expression in each of those readings" (Geeraerts 2010). Metonymy is usually employed to represent part-whole relations, i.e. part stands for whole as a referential sign. For example, Lithuanian word *plyta* ("a brick") is used to denote a traffic sign which in informal speech bears a name "brick" due to some visual resemblances; here the brick as an object stands for the traffic sign and also for the traffic rule it represents.

Finally, one more process of semantic change is metaphor, which is employed to express relations where one object or phenomenon is represented by another usually based on some characteristic resemblance between the two. For example, scientific biological term *barakuda* ("barracuda"), denoting a ray-finned fish known for its large size and dangerous appearance, is widely used metaphorically to denote a woman that acts

in an aggressive manner and seeks attention of wealthy men. Here common characteristics include aggression, danger, orientation towards prey and as they are referred to a human female, they acquire a rather ironic aspect (which is a frequent case with metaphorical semantic changes). Another metaphoric semantic shift may be noticed in the word *tapetai* ("wallpaper") which in television-related vocabulary is used to denote static television programs where information is mostly provided in sound, while visual material appears to be unappealing. Here the resemblance lies in the assumption that both wallpapers and programs of specified sort are hard to notice, mundane, having nothing to attract attention; metaphorical meaning shift here acquires a derogatory aspect, or shift towards more negative meaning.

On balance, it could be said that semantic extensions of existing words is an important process of new word formation in modern Lithuanian, revealing various aspect in relation to onomasiological approach: not only new words are coined to name new concepts, but also new concepts may be expressed by semantic extensions of existing words. Therefore lexical unit as a phonetic expression bearing semantic contents is not a finite product: new words emerge and existing words develop during the course of time, and these are the signs of constant language evolution.

Conclusions

Analysis of neologisms presented in the internet database of Lithuanian neologisms supported by theoretical framework of lexical semantics allows for the following conclusions to be drawn. The major part of neologisms comes to the Lithuanian language from foreign languages, mostly English in a form of borrowings or calque translations. This may be considered a mark of historical period: as in earlier years and neologisms based on Russian words prevailed due to political situation, nowadays Lithuania has most cultural, scientific, economic and other contacts with the Western world, where English appears to be the dominating language of international communication. Development of Lithuanian language is subject to the process of borrowing foreign words in their original form or coining a Lithuanian equivalent to denote concepts that emerge in foreign countries. In addition, not all neologisms in the Lithuanian language are based on the sources of foreign languages; new words are created employing the means of derivation of the Lithuanian language and semantic extensions. Therefore, the Lithuanian language is changing both internally, by formation of new native words and by adopting new concepts, which reveals dual path of language development. Onomasiological processes, closely related to progress in world in general, are reflected in adoption and creation of Lithuanian neologisms: the country, its community and language become a part of global community, where the same concepts can be recognized either in their original, or a new form, thus creating a global set of meanings related with main spheres of human activity. Nonetheless, Lithuanian language preserves its unique qualities by

coining neologisms pertaining to exclusively Lithuanian subjects and phenomena, in such way proving that language is living, versatile and capable of meeting communicational needs of an individual and society.

Authors of the article consider that the Lithuanian language is entering a new important stage of development by becoming a part of global society while maintaining its individuality.

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LEXICOGENETIC PROCESSES IN MODERN LITHUANIAN LANGUAGE: CREATION AND USE OF NEOLOGISMS

Summary

Language is a constantly changing system, and the Lithuanian language is developing due to various factors in surrounding culture and society. One of the processes of language development is reflected in creation of neologisms and their adoption from foreign languages to describe new concepts. Therefore the internet database of Lithuanian neologisms was chosen by the authors as a corpus for analysis of introduction of new words to the Lithuanian language. To support the analysis the theory of lexical semantics dealing with meanings of words, their changes and creation of new ones is elaborated.

In methodological part of the paper main concepts that are used in the analysis are discussed. The term “neologism” is defined and its various aspects are examined. Further on, “lexicogenetic mechanisms” or processes of word creation, introduced by linguist Dirk Geeraerts and description of such processes is provided as well as a system of neologism classification by French linguist Jean Tournier. Insights of such linguists as Pavol Štekauer, Andreas Blank, Joachim Grzega and others are presented regarding changes of language and creation of neologisms. Onomasiological nature of language development is introduced as main approach towards construction and adoption of neologisms – the process is viewed generally as naming new concepts which occur due to changing social and cultural environment and globalization.

In the research part an attempt at classification of neologisms based on theoretical framework is provided. Lithuanian neologisms are grouped under following categories: morphological derivatives using words of purely Lithuanian origin, derivatives combining foreign root and Lithuanian prefix/affix, borrowings from other languages (loanwords and calque, or word-to-word translations); semantic extensions of existing words. Examples from various spheres of social, political scientific contexts are introduced and discussed (examples are provided from the internet database of Lithuanian neologisms).

Authors draw a conclusion that creation of neologisms constitutes a part of inevitable change of the Lithuanian language in today's global context. Neologisms express new concepts at a global level and are seen as linguistic instruments of uniting Lithuanian social and cultural context with the global context of development and innovations.

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THE COMPARATIVE ANALYSIS OF THE SEMANTIC GROUP OF THE TERM “MONEY” IN THE DICTIONARIES OF ECONOMICS

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Abstract

The paper deals with the term ‘money’ which covers a huge semantic group of the related lexicon in the field of economics. The terms as special lexical items that belong to the semantic group of ‘money’ may have the same or nearly the same, or even expanded description of the meaning in the special dictionaries of English and Lithuanian. Where as the composition specificities and the origin of the terms in reference to the functional variation of the national language are based on standard requirements.

The investigation suggests the comparative study of the semantic group of the term “money” in regard to the characteristics of the meaning, origin, and composition that are found in some senses from typological, semantic, and structural perspectives.

Keywords: the term, the semantic group, lexicon, special dictionary, the characteristics of the meaning, origin, and composition.

JEL Classification: I20.

Introduction

The terminology in the field of economics as an academic discipline has relatively long tradition in the Lithuanian language in regard to the term creation, formation, the preciseness of the meaning, and, therefore the usage of the terms is not in doubt. Also, the significant changes in the present economics lead to the emergence of the new terms defining the latest concepts that require for supplementing the additional information, whereas some of the existing terms and their meaning need to be reconsidered and reviewed in reference to the international and national standards.

Furthermore, the modern studies on terminography, dealing with the expression of the form and composition, the equivalence of the meaning, definition, special dictionaries, etc. done by L. Zgusta (1971), S. Landau (1989), B. Svensen (1993), J. Humbley (1997), I. Kudashev (2007), G. Kleparsky, A. Włodarczyk-Stachurska (2008), and B. Pedersen (2012) are considered to be noteworthy in the field of terminology. Though the recent comparative investigations of the terms, their meaning, composition, origin, etc. are limited in Lithuania. However, some works carried out by J. Gaivenytė (1997), J. Cvilikaitė (2007), E. Kontutytė (2008), J. Džežulskienė (2010), and V. Stankevičienė, D. Švenčionienė (2010), and performed on the linguistic similarities and differences of the terms are important for the comparative terminology.

Moreover, in the process of globalization and through the intensified language contacts, the specialized lexicon in business transaction in the field of economics becomes an increasingly important area. But after all, the success or the failure of the business may depend on the accurateness of the terms and the lexicon used in practice. On the one hand, what may be plain and clear for an Englishman, on the other hand this may be not acceptable, or not understandable to a Lithuanian. For this reason, the

special terms of economics need the systematic study of the general characteristics of the terms in the two languages. Different approaches have to be observed in the investigation of the special lexicon as the analytic English and the synthetic Lithuanian have divergent views in analysing the explanation of the meaning, the functional variation of the national language, and the composition of the terms.

At present, the growth of translation works from the one language into the other one is motivated by the weighty exploration of the terms in regard to the designation, concept, meaning, and the content of the definition in monolingual and bilingual dictionaries, to investigate the similarities of the comparable characteristics of the expression of the term, to determine the degree of the equivalence in the two languages. The problem of the terminological equivalence is therefore important especially for the comparative terminology in the field of economics, as well as the specificity of the term, the subtleties of the expression and the information presented in the one or the other language can be better understood.

Because of the reason given, such a translation of information cannot be done without the special dictionaries while learning the special language of economics. The information introduced in the one language and communicated into the other one leads to produce a closer look into the special dictionaries for the definitions and the explanation of the meanings of the terms. Accordingly, the dictionaries for students are the key to understanding the meaning of the terms as well as gathering necessary information of the phenomena. So, one of the most important aspects of the bilingual dictionaries is not only the consistency of the interpretation and description of the meaning, and the formulation of the definition, but also the setting of the term equivalence in regard to the semantic data is also critical. Essentially, the special lexicon used for

the application of Language of Economics needs not differ from the traditional types as the standard-descriptive or the explanatory dictionaries. Over the past years in Lithuania some dictionaries of economics were composed and issued by R. Vainienė (2005), D. Pearce (2006), and the data available at the Internet <http://www.e-terminai.lt/>.

The object of the study is the semantic group of the term ‘money’ in the special dictionaries of economics.

The problem focuses on the characteristics of the meaning of the terms and the content of the definitions whose description may often be assumed as incomplete or expanded, and paraphrased that sometimes may cause vagueness and / or inconsistency of the expressed thought and / or meaning.

The aim of the paper is to explore the semantic group of the term ‘money’ in the two languages.

The following **tasks** are:

- to present a brief overview of the theory relevant to the investigated semantic group and the used dictionaries;

- to explore the terms in regard to their content of the definitions, the characteristics of the meaning, the origin in reference to the functional variation of the national language, and the characteristics of the composition;

- to substantiate the analysis with the specificity of the definition, meaning, origin, and composition of the terms in regard to the theoretical, typological, and descriptive analysis.

The following research **methods** are employed in the study: the analysis of the scientific literature; descriptive method; comparative method; method of oppositions.

Theoretical background

Semantics is considered to investigate the inferred meaning of a word, expression, or a sentence in regard to the principles that govern the relationship between words and their meaning, and interpretation (McArthur, 1998). Furthermore, the semantic field theory (developed by J. Trier, 1931 and W. Porzig, 1934) deals with relevant words and compared members of a set, whereas “a set of lexemes covers a certain conceptual domain and bears certain specifiable relations to one another” (Lehrer, 1985). In other words, ‘lexical field’ (cf. Trier, 1931; Porzig, 1934) is maintained to be as “network of words in which the meanings of words define each other and put limits on each other’s meanings” (Ullmann, 1964. In: Hidekel, et al., 1975). Moreover, the content value of the lexicon is formed by the semantic data of the lexical item (Jakaitienė, 2005). Thus, it is assumed that the comparative analysis of the particular semantic group provides a more generalised view of the world than the separate sememes and /or the typological study of the lexis when comparing the languages. Whereas the sememes are dealt as the minimum units of the meaning analysed in general. Accordingly, the semantic group is understood as the entirety of such sememes forming the specific field of the same values (Gudavičius, 2007). On the other hand, the ‘semantic group’ itself makes some uncertainty of the meaning as it is often defined as ‘a semantic field’, ‘a lexical semantic domain’, and even ‘a thematic group’ is understood as a ‘synonymous group’ (ibid, 2007). As a result, it can be

noted that the difficulty arises in evaluating the research focus in reference to the areas of the study differently designated since the variety of the theories of the semantic field has been interpreted and developed.

Furthermore, the growing interest in semantic lexical groups being explored allows understanding the “meaning of words from words in use in a much more reliable way” (Pedersen, 2012). Accordingly, a special term can be determined by its meaning within the construction in regard to the specialised lexicon. The meaning of the term can coincide with the lexical meaning neither of the word, nor with the definition of the term, though the definition of the term can highlight, explain, and describe the intentional sememes (Gaivenis, 2002; Jakaitienė, 2005).

Also, the words within the semantic group deal with the equivalence of the meaning when comparing the languages. As stated in the theoretical literature, the concept of ‘equivalence’ does not always have the same characteristics since the different national languages of science or any other subject-related activities are formed under different conditions (Kontutytė, 2008; Keinys, 2005). Therefore, the equivalence (Landau, 1989; Svensen, 1987. In: Jakaitienė, 2005) can be understood when: (a) expressions correspond in content and register (i.e. the complete or absolute equivalence); (b) an incomplete information of content and register is presented (i.e. the partial equivalence); and, (c) the expressed concept of the main word is paraphrased (i.e. the surrogate equivalence). In addition, also the ‘zero’ equivalence is differentiated, i.e. when the two languages have the same expression of the word, and the ‘no equivalence’ is found in a language when the terms denote culture-specific concepts. Generally, the concept ‘equivalence’ (*Lith. ekvivalentiškumas*) is defined as a thing or a state of some phenomenon being same, similar, identical, alike, equal, interchangeable, correspondent, or synonymic (<http://www.diction.reference.com/>). Also, a thing or a state of some phenomenon may be equivalent in meaning and value (Kvašytė, 2005). Accordingly, the meaning of the two linguistic terms can be considered as being equivalent if the characteristics of the both concepts are the same (cf. Arntz, Picht, Mayer, 2004. In: Kontutytė, 2008).

Moreover, the coined term is based on certain requirements, such as specificity, clarity, accuracy, systematicity, regularity, usefulness, etc. These mentioned principles are applied to all languages, though it is very important to realize that these principles have to be used to different languages individually, since each language is regarded a unique phenomenon, having its own requirements for a content and expression (Keinys, 2005). Furthermore, the term is assumed to indicate the three things: the concept, the object, and the linguistic designation (Jakaitienė, 2005). When analysing the ‘definition’, the considerations about the characteristics used in the definition, its meaning, content, composition of the statement explaining what the concept is, and all these properties have to be taken into account (ISO 10241, 1992 (E)). Moreover, some terms may have more than one designation to already existing terms usually understood as synonyms or variants and may have the same description or explanation. Therefore, it is argued that such variety of term-synonyms is considered to have “general meaning,

more intense or neutral, professional, or even local" (Ullmann, 1962).

Next, the dictionary is accepted as the reference book that contains the alphabetical list of words with information given for each word, included meaning, etc., or the bilingual dictionary providing with translations into another language, whereas the glossaries as the specialized dictionaries are used as the alphabetical list of technical terms in some special field of knowledge (<http://www.thefreedictionary.com/>). So one way or another "every dictionary has to be considered as an authority" (cf. Zgusta, 1971. In: Kudashev, 2007). Comparing the dictionary-types in Lithuania, the compiled dictionaries are differentiated into the descriptive dictionaries or the explanatory ones whereas the terminological dictionaries are classified according to some special fields of science into the bilingual or multilingual dictionaries. As technology has been evolving, many dictionaries and glossaries have been computerized, i.e. previously compiled dictionaries have been adapted to the electronic database. Thus, the electronic terminography has been developed in regard to the different concepts of language. In other words, terms have been standardised since the Term Bank of the Lithuanian Republic has been established (Jakaitienė, 2005). An important fact must be mentioned that standardisation of terms in the world started in 1930 whereas *Lithuanian Standards Board* (LST) was established when the country gained its independence (after 1990) (ibid. 2005). At present, the LST has been participating in the implementation of quality management system in accordance with ISO 9001 standard.

Another point is that the specialists of the different fields of science are interested particularly not only in the meaning of the term, but also in its expression, since the issues of the unification of the terms are the basic for the scientists, academics, learners, and translators, who search for a more precise term being equivalent in meaning and / or content when comparing the different languages. Considerations about the description and accurateness of the terms in the dictionary can be made by the dictionary-users. That is, on the one hand, the scientists, who coin and designate the researched phenomena, define concepts and those who compile the specialised dictionaries. On the other hand, the students who study the special subjects and learn the terms with the help of the explanatory dictionaries. And, finally, the linguists who analyse, compare, and carry out the investigations in the field of terminology for special purposes. As a result, it depends on the aim, tasks, and goals of the dictionary-users and what they seek for.

However, in disputes some arguments arise about the lack of the appropriate definition of the term 'dictionary' itself in regard to dictionary-like reference works, i.e. "whether terminological vocabularies, glossaries, and the term banks, can be considered as dictionaries, though from the theoretical point of view most terminological collections are maintained as dictionaries too" (Kudashev, 2007). It is the essential fact that the compilation of terminological glossaries is based on the methods developed by the ISO standards, i.e. ISO 704:2000 being the most important (Humbley, 1997) and the goal of terminological glossaries is to provide the standardised terminology with "the logical definitions to reflect the concept system" (In: Kudashev, 2007). On the other hand, it must be mentioned that "the ISO standards are responsible for the procedural regulation and

systematization of the terms as well as for scientific investigation having its own special rules and recommendations" (cf. BS3669 1963 and ISO 704 1986. In: Pugh, Sager, 2004). Thus, the ISO 12620:1999 standard is maintained to describe the basic linguistic categories, information on the definition, meaning, pronunciation, word formation, inflection, collocations, phraseology, and the usage, though all these linguistic aspects can be rarely found in terminological glossaries.

Next, the investigation of the data in reference to the functional variation of the national language is also important in discussing the origin of the borrowings that are based on foreign (English) lexicon. The term designation belongs to the class of the lexical units as the word-combinations that have the specific characteristics of the individual language type whereas the language for special purposes (LSP) is considered as functional variations of the national language. Moreover, the existing international (i.e. English) terms are introduced into the national (Lithuanian) language by borrowing, either by direct loan or loan translation (see ISO 704:2000(E). The borrowing, i.e. the international or the loan, is understood as the word or the phrase taken from one language and used in another language (Richards et al., 1992; Kvašytė, 2005) whereas the hybrid word can be composed of the elements that come from more than one language (e.g. Greek or Latin) (McArthur, 1998; Kvašytė, 2005). Accordingly, borrowing of the terms from another language (i.e. English) is one of the ways of developing national terminology. At present, the use of the borrowings is intensified, so when compiling the dictionaries (especially the explanatory and the translational ones), a subject to certain requirement is that the borrowed terms are not to be used, and, as stated in the literature, the proportions would be maintained between the borrowed terms, as international words and the national ones (Jakaitienė 2005). It is noted that the terminologists of all fields of science and the users seek for the principle of the purity of the terminology in Lithuanian (Keinys, 2005).

Furthermore, the compounds are regarded to be "potential for systematicity and regularity", so they are employed to create the appropriate terminological system used in the special language designation (Pugh, Sager, 2004) whereas composition (also compounding) is used for combining the two free forms to compose a new complex word (Olsen, 2000). It is argued that the terms containing the compound structure are characteristic to all fields of science as such terms most often designate the conceptual variety relevant to species (Gaivenis, 2002). Besides, when creating terms of new scientific research areas the requirement has to be followed: the terms must be formed by traditional means, i.e. based on word formation and grammar as well as new ways of expression of concepts are to be sought (Keinys, 2005; Jakaitienė, 2005).

To sum up, there is no consensus among linguists in applying and treating the 'semantic field' theory though the linguists go on investigating different semantic groups from their point of view approaching their own way on the basis of already performed studies.

Research methodology

In this study, the semantic group of the term 'money' is understood as the entire of the sememes of the

specific field that set up or develop the similar values. The analysed number of the examples comprises 110 lexical units as the terms. The examples have been selected from *The dictionary of economics terms* by R. Vainienė (ETŽ, 2005) and *The Explanatory English–Lithuanian Dictionary of Economics* by D. Pearce (AEA-LKŽ, 2006) and compared to the sources that cover e-dictionaries in English, i.e. <http://www-personal.umich.edu/~alandear/glossary/>, <http://ask.reference.com/>, <http://www.businessdictionary.com/>, <http://www.investopedia.com/>, <http://www.thefreedictionary.com/>, <http://encyclopedia.thefreedictionary.com/>, <http://www.qfinance.com/dictionary/>, <http://www.princeton.edu/~achaney/tmve/wiki100k/docs/>, <http://www.ventureline.com/accounting-glossary>.

First, exploring the content of the definitions it has been taken into account the usage of the term ‘money’ employed in defining the analysed concept.

Second, the investigation of the characteristics of the meaning has been based on the theory created by B. Svensen (1987). The analysed examples of the terms have been differentiated into the following groups: the compared characteristics of the meaning corresponding to the same content in the special dictionaries of English and Lithuanian have made the first group of the absolute equivalence; the compared characteristics of the meaning that have not been fully described and / or the meaning of the term has been supplemented with some characteristics in the one or the other compared language have made the second group of the partial equivalence; whereas the compared characteristics of the meaning that have been paraphrased have made the third group of the surrogate equivalence.

Third, in finding out what is characteristic for the national (Lithuanian) terms in the special language of economics or the borrowed (international or English) terms, the analysis has been carried out to determine the origin of the terms of the semantic group ‘money’. The terms of mixed origin have been differentiated into the groups that have been composed of the elements of the international and Lithuanian origin. Whereas the terms of the national origin have been grouped according to the general formation and the translation laws of the Lithuanian language.

Forth, the semantic group of the term ‘money’ has been investigated in regard to the association based on the theoretical works by K. Gaivenis (1997) and S. Keinys (2005). Also, the method of oppositions has been used to determine the composition of the compared terms: the terms composed of the one-word, two-word, and three-word units in English have been analysed in the opposition with the same and the different number of word units in Lithuanian.

Analysis and discussion

The content of the definition. Generally, the term ‘money’ can be understood without any context and it can make sense, first, *money* can be considered as “a generally accepted medium for the exchange of goods and services”; second, *money* can be used “for measuring value”, and “for making payments” (5-e-dic). Also, the term ‘money’ when defined can be explained in different ways, e.g., as metal, paper, gold or silver; money at hand, or easily accessible, in the form of cash deposits, checks, loans, accounts receivable, and marketable securities (bonds, notes,

shares), credit card, e-card; also, ‘money’ can relate to deposits, assets, insurance, savings, mortgage, etc., and, it can be fake money or quasi-money, easy money, etc.

Investigating the content of the definition of the term *Lith. pinigai / Eng. money* (ETŽ: 216), the mentioned term as the lexical unit is most frequently used when speaking about:

- a) the coins, banknotes as a means of paying, e.g.: *Lith. rankpinigiai / Eng. earnest* (ETŽ: 233);
- b) the metal or paper labels and the measure of value (prices), e.g.: *Lith. piniginė išraiška / Eng. money terms* (AEA-LKŽ: 425);
- c) the available funds, e.g.: *Lith. pinigai iki pareikalavimo / Eng. call money* (AEA-LKŽ: 82); *Lith. grynųjų pinigų santykis (su indėliais) / Eng. cash ratio* (AEA-LKŽ: 93); *Lith. valstybės išlaidų ribojimas / Eng. cash limit* (AEA-LKŽ: 82); *Lith. pinigų bazė / Eng. monetary base* (AEA-LKŽ: 417); *Lith. grynųjų pinigų srautas / Eng. cash flow* (AEA-LKŽ: 93);
- d) the period or policy creating such a situation, e.g.: *Lith. pigūs pinigai / Eng. cheap money* (AEA-LKŽ: 98);
- e) the action and value of the process, e.g.: *Lith. valiutų pakeitimas / Eng. currency substitution* (AEA-LKŽ: 147); *Lith. skolos padengimas pinigų emisija / Eng. monetization of debt* (AEA-LKŽ: 420);
- f) the created theories, e.g.: *Lith. pinigų teorija / Eng. monetary theory* (AEA-LKŽ: 419);
- g) the department or institution, e.g.: *Lith. pinigų valdymo institucijos / Eng. monetary authorities* (AEA-LKŽ: 417);
- h) the case aspect, e.g.: *Lith. piniginių išorinių ekonomikumas / Eng. pecuniary external economy* (AEA-LKŽ: 477);
- i) the medium of exchange, e.g.: *Lith. pinigų paklausa / Eng. money, the demand for* (AEA-LKŽ: 420);
- j) the means of accounting of money (unit), e.g.: *Lith. pinigų daugiklis: multiplikatorius / Eng. money multiplier* (AEA-LKŽ: 423).

Thus, the lexical unit ‘money’ has been used most often in the analysed definitions when defining the ‘available funds’.

The characteristics of the meaning. Investigating the characteristics of the meaning of the terms in the English dictionary, it is also searched for the term equivalents provided in the special dictionary in Lithuanian. Some examples found in the dictionaries allow the following groups to be highlighted.

1. The compared examples of the terms cover the first group in regard to the same characteristics of the meanings that coincide, e.g.: *Eng. net export (1-e-dic) and Lith. grynas eksportas* (ETŽ: 100) when speaking about “the aggregate value of exports minus imports”; *Eng. share premium (3-e-dic) / Lith. akcijų priedas* (ETŽ: 117) with respect to “the excess of the amount subscribed for an issue of corporate capital over its par value”.

2. The second group of the examples comprises the terms whose characteristics of the meanings are expanded in the one or the other compared language, or the meaning is not completely described. Such examples are numerous and may be differentiated into the following subgroups.

- a) The analysed example of *Eng. debit card* (4-e-dic) is supplemented with the additional information when

speaking about the “*removing cash from account as or paying electronically at merchant locations*”, etc. or, “*major benefits to this type of card as convenience and security*” are explained in comparison to the general characteristics of the meaning. However, the meaning of the investigated example *Lith. debeto kortelė* (ETŽ: 61) can be understood as general, i.e. “*a bankcard used to make an electronic withdrawal from funds on deposit in a bank, as in purchasing goods or obtaining cash advances an itemized summary of expected income and expenditure*” comparing to the characteristics indicated in English.

b) Next, the analysed example of the term *Eng. net value* (2-e-dic) whose characteristics of the meaning may be considered as incomplete, i.e. when speaking about “*the value of the assets in a company, an estate or an investment portfolio after accounting for all liabilities*”. Whereas the example *Lith. grynoji vertė* (ETŽ: 101) presents the expanded meaning of the indicated characteristics when speaking about “*an acquisition of an investment and its establishment; adding value and reduced value of special assets; financial institutions and financial assets, valued at market price or the purchase price; all ordinary shares and preferred shares of reserves and reduced intangible assets*” in regard to the general characteristics of the meaning.

c) The analysed example *Eng. budget* (3-e-dic) is supplemented with the additional information as “*one of the most important administrative tools, which serves also as a plan of action for achieving quantified objectives, standard for measuring performance, and device for coping with foreseeable adverse situations*” in comparison to the general characteristics of the meaning. Though quite different characteristics of the meaning of the analysed example *Eng. budget* (4-e-dic) are presented as “*a bag or sack with its contents; a stock or accumulation; an estimate of expenses; a leather or skin bottle*” considering one way or another the meaning may relate to the analysed term. However, the characteristics of the meaning of the investigated example *Lith. biudžetas* (ETŽ: 49) are rather brief, i.e. “*an itemized summary of expected income and expenditure*” comparing to the characteristics indicated in English.

The following analysed example of the term *Eng. poll tax* (5-e-dic) gives the additional, and even different (applied to one country) information: “*poll taxes are illegal in the United States as they discourage the poor and, in some cases, racial minorities from voting*” in regard to the general meaning of “*a tax levied per head of adult population*”. Though, the analysed example *Lith. pagalvės mokestis* (ETŽ: 197) includes the general characteristics of the meaning when speaking about “*a tax levied per head of adult population*”.

d) The analysed example of the term *Eng. arbitrage* (6-e-dic) indicates the general characteristics of the meaning when speaking about “*markets trade profiting from variations in market price, the buying and selling of foreign currencies, products, or financial securities between two or more markets*”, etc. Furthermore, the meaning of the analysed example of *Eng. arbitrage* (7-e-dic) gives the expanded

information used by “*academics*” dealing with characteristics of an arbitrage as “*a transaction that involves no negative cash flow at any probabilistic or temporal state and a positive cash flow in at least one state*”; or simply “*as the possibility of a risk-free profit at zero cost*”; also, in common use, as in statistical arbitrage, and in practice. The investigated example *Lith. arbitražas* (ETŽ: 29) covers the general characteristics of the meaning when speaking about “*the simultaneous purchase and sale of an asset in order to profit from a difference in the price*”, though the same example *Lith. arbitražas* is provided with another meaning as “*the third-party court, disputes in the presence of an independent third party*”, with the reference to see ‘*speculator*’.

3. The third group of the examples comprises the terms whose characteristics of the meanings are paraphrased in the one or the other compared language. The investigated example *Eng. arbitrage* (4-e-dic) provides with the paraphrased information in regard to the general characteristics of the meaning as “*a result of market inefficiencies; it provides a mechanism to ensure prices do not deviate substantially from fair value for long periods of time*”.

Thus, the analysed characteristics of the meanings of the compared examples display the variety of information indicating the sameness, similarity, or interchangeable properties that coincide with the general and paraphrased meaning of the term, and the differences that does not conform with the general meaning in regard to the specificity of the term in the dictionaries in the one or the other compared language.

A case of the example *Lith. mokinio krepšelis* (ETŽ: 176) (*Eng. a student's basket*) as a newly coined term denotes the economic-specific concept which covers special characteristics of the meaning enclosed when speaking about “*the amount of funds allocated to the school for each student provided with the set services*”. Searching for the corresponding similarity of the equivalent meaning in English, the explanation of the general characteristics of the meaning *Eng. a basket* is considered as “*an economic term for a group of several securities created for the purpose of simultaneous buying or selling*” (4-e-dic). The characteristics of the meaning regarding this case of the analysed example can be argued as similar or alike though it may also be disputable.

A special case of the analysed example *Eng. fränko* (2/5-e-dic) found in the dictionary provides with the characteristics of the meaning indicating *France* or *French* in regard to the politicians and as the combining form. The mentioned term is not found in the Lithuanian Term Bank, though the investigated Lithuanian dictionary presents the characteristics of the meaning of the term *Lith. fränko* [it. franco] (ETŽ: 93) used to describe “*a sale in which the seller pays for part of the transport charges, or sales in which goods are delivered free to a certain point*”. It can be stated that the mentioned example of the term is outdated and no longer used, and this phenomenon needs a new designation.

Some cases of the examples are found when the Lithuanian dictionary displays one designation referring to the term, though the English dictionaries present the corresponding term supplemented with the two or three synonymic designations (10 examples), e.g.: *Lith. atidėtosios*

pajamas (ETŽ: 32) / *Engl. deferred income* also known as *deferred revenue, unearned revenue, or unearned income* (5-e-dic); *Lith. atkuriamoji vertė* (ETŽ: 33) / *Eng. replacement value, replacement cost* (8-e-dic); *Lith. importo muitas* (ETŽ: 107) / *Eng. import duty, duty tax* (6-e-dic), etc. One way or another, such variety of designations of the term can be considered to have professional or local usage whereas the emergence of such term synonyms (variants) is often influenced by English. The point is that such term synonyms (variants) can make ambiguous meaning of the phenomenon when discussing its meaning in translation.

To sum up, when investigating the characteristics of the meaning of the terms provided in the special dictionaries of the different languages it has to be noted that the selected examples in regard to the characteristics of the meaning are not always easy to assign to a particular group applying the basis of the theoretical material.

The origin of the terms in regard to the functional variation of the national language. The terms composed of the one-word unit of the national and international origin make the number of 25 examples. Some examples of the one-word composition comprise the group referring to the national (Lithuanian) origin (11%), e.g.: *Eng. profit* / *Lith. pelnas* (ETŽ: 211); *Eng. money* / *Lith. pinigai* (ETŽ: 216); *Lith. apyvarta* (ETŽ: 26) / *Eng. turnover*; *Lith. indėlis* (ETŽ: 108) / *Eng. deposit*; *Lith. pajamos* (ETŽ: 198) / *Eng. income*.

The analysed examples of the one-word composition cover the group of the international (English) origin (56%), e.g.: *Lith. anuitetas* (ETŽ: 24) / *Eng. annuity*; *Lith. arbitražas* (ETŽ: 29) / *Eng. arbitrage*; *Lith. azio* (ETŽ: 36) / *Eng. agio*.

On the basis of the composition of the two-word units expressed by the adjective-noun and the noun-noun combination, the found examples (88) can be classified into the following subgroups:

a) the analysed examples are combined of the two-word units of the pure Lithuanian origin (69%), e.g.: *Lith. atidėtosios pajamos* (ETŽ: 32) / *Eng. taxable income*; *Lith. bendrasis pelnas* (ETŽ: 43) / *Eng. gross profit*;

b) the composition of the following examples is comprised of the two-word units whose formation indicates the international origin (2%), e.g.: *Lith. pensijų anuitetas* (ETŽ: 212) / *Eng. pension annuity*; *Lith. debeto kortelė* (ETŽ: 61) / *Eng. debit card*;

c) the investigated examples are composed of the two-word units, i.e. one unit of the Lithuanian and the other one of the international origin (mixed or hybrid); the analysed examples cover the structure of the attribute with the head-noun, whereas the attribute is the word of the Lithuanian origin, and the head-word indicates the formation of the international origin (20%), e.g.: *Lith. apmokėtasis kapitalas* (ETŽ: 27) / *Eng. paid-up capital*; *Lith. grynasis eksportas* (ETŽ: 100) / *Eng. Net export*; *Lith. mokesčio bazė* (ETŽ: 171) / *Eng. tax base*;

d) the examples are composed of the two-word units, one of the international and the other of the Lithuanian origin (13%); the examples contain the attribute of the international origin, and the formation of the head-word of the Lithuanian origin, e.g.: *Lith. finansinis turtas* (ETŽ: 91) / *Eng. financial assets*; *Lith. franšizės mokestis* (ETŽ: 93) / *Eng. franchise tax*;

Lith. hipotekinė paskola (ETŽ: 104) / *Eng. mortgage loan*.

To sum up, the investigated examples of the semantic group of the term 'money' have presented the findings showing the preference of the usage of the terms of the national origin, whereas the number of the analysed examples found of the international and / or hybrid origin has been limited.

The specificity of the composition. When comparing the examples of the English and Lithuanian terms it is investigated not only the equivalence of the meaning, but it is also necessary to analyse the expression and the composition of the terms of the language from which it is translated. In order to reveal the characteristics of the composition of the terms relevant to the semantic group 'money' presented in the English and Lithuanian dictionaries the examples have been classified into the following groups.

1. The compared examples (19) indicate the same structure of the one-word unit in English and Lithuanian (17%), e.g.: *Lith. bauda* (ETŽ: 42) / *Eng. penalty, fine*; *Lith. indėlis* (ETŽ: 108) / *Eng. deposit*; *Lith. pajamos* (ETŽ: 198) / *Eng. income*.

2. The investigated examples (81) composed of the two-word units correspond to the same structure in English and Lithuanian (68 %), e.g.: *Eng. taxable income* / *Lith. apmokestinamos pajamos* (ETŽ: 26); *Eng. gross profit* / *Lith. bendrasis pelnas* (ETŽ: 43); *Eng. currency principle* / *Lith. pinigų principas* (ETŽ: 148).

3. The analysed examples (10) comprising the three-word units match the same structure in English and Lithuanian (9%), e.g.: *Eng. fixed interest rate* / *Lith. fiksuotoji palūkanų norma* (ETŽ: 87); *Eng. capital gains tax* / *Lith. kapitalo prieaugio mokestis* (ETŽ: 128); *Eng. negative income tax* / *Lith. neigiamasis pajamų mokestis* (ETŽ: 183).

4. Some examples (6%) containing the different number of lexical units in English and Lithuanian have been found:

a) the compared examples consisting of the one-word unit in English can correspond to the structure of the compound term containing the two-word units and / or three-word units in Lithuanian, e.g.: *Eng. cash* / *Lith. grynieji pinigai* (ETŽ: 101); *Eng. seignorage* / *Lith. pinigų emisijos mokestis* (ETŽ: 470);

b) the compared examples of the compound term that include the two-word units in English can conform to the structure containing the one-word unit in Lithuanian (3,3%), e.g.: *Eng. excise tax* / *Lith. Akcizas* (ETŽ: 19); *Eng. advance payment* / *Lith. avansas* (ETŽ: 38);

c) the analysed examples of the compound term containing the structure of the two-word units in English can correspond to the compound term made up of five or six word-units in Lithuanian, e.g.: *Eng. legal tender* / *Lith. teisėta ir privaloma priimti mokėjimo priemonė* (ETŽ: 260);

A special case of the example regarding the expression of the term has been found: the investigated examples in English as compounds usually are joined without a hyphen, though some term-synonyms have a hyphen involving two- or three-word units or a changed word element to create a new form and to designate the concept without any change in meaning. Whereas the compared examples of the compound terms in Lithuanian do not have the hyphen, e.g.: *Eng. paid in capital, paid-up capital* (5-e-dic) / *Lith.*

apmokėtasis kapitalas (ETŽ: 27); Eng. *take home pay, take-home pay* (2-e-dic) / Lith. *darbo užmokestis „į rankas“* (ETŽ: 61). In Lithuanian the hyphen can be used between the two equivalent words that designate the same property of the thing or the phenomenon.

Summing up, the investigated examples of the terms that cover the structure of the compounds usually consisting of the two-word units represent the general concepts in the special language of economics.

Conclusion

The investigated examples of the terms and the analysed sources allow to reflect on the quality of the used dictionaries, and to foresee the trends in arranging terminological dictionaries, also, to overview the essential

points of the fundamental principles used in creating the terms in reference to the characteristics of the meaning, the content of the definition, the composition, and the origin of the terms in reference to the functional variation of the national language.

As for the scientific accuracy of the 'dictionaries' analysed, the researcher, the translator, or the learner can be recommended to look for the information in the dictionary or glossary approved by the Commission; though when searching for the meaning of the term the user should employ more than one e-data of the dictionary to enrich knowledge and to find the additional information about the investigated phenomenon, the possible phrases and the origin of the term.

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THE COMPARATIVE ANALYSIS OF THE SEMANTIC GROUP OF THE TERM “MONEY” IN THE DICTIONARIES OF ECONOMICS

Summary

In the process of globalization and through the interaction of the languages, it is more often faced with the equivalence of the terms in the field of economics when translating special texts. The terminology of economics has relatively old tradition in the Lithuanian language and the usage of some terms is not in doubt. However, the present challenges in economics influence the occurrence of the new terms defining the latest phenomena requiring the additional explanation whereas some used terms and their meaning need additional reconsideration.

The modern studies on terminology, concerning the expression of the form and composition, the equivalence of the meaning, definition, special dictionaries, etc. done by L. Zgusta (1971), S. Landau (1989), B. Svensen (1993), J. Humbley (1997), I. Kudashev (2007), G. Kleparsky, A. Włodarczyk-Stachurska (2008), and B. Pedersen (2012) are considered to be noteworthy in the field of terminology. Though, the recent comparative investigations of the terms, their meaning, composition, origin, etc. are limited in Lithuania. However, some works carried out by J. Gaivenytė (1997), J. Cvilkaitė (2007), E. Kontutytė (2008), J. Džežulskienė (2010), and V. Stankevičienė, D. Švenčionienė (2010), and performed on the linguistic similarities and differences of the terms are important for the comparative terminology.

When learning the special language of economics it cannot be done without specialised dictionaries. The dictionaries are the main means to search for information regarding the meaning of the terms. The growth of translation works from the one language into the other one lead to consider carefully the presented meaning of the definitions in the explanatory dictionaries, the ways of description of the content of the term, to compare the information regarding the general characteristics of the concept in the two languages, and to determine the degree of the equivalence. Therefore, the growing interest in semantic lexical groups allows understanding the “meaning of words from words in use in a much more reliable way” (Pedersen, 2012).

The goal of the paper was to investigate the characteristics of the meanings of the terms presented in the analysed dictionaries and the content of the definitions whose description was often found as incomplete or expanded, and paraphrased that sometimes caused vagueness and / or inconsistency of the expressed meaning. In this paper, the semantic group of the term ‘money’ was understood as the entire of the sememes of the specific field that set up or developed the similar values. The analysed number of the examples comprised 110 lexical units as the terms. The examples were selected from *The dictionary of economics terms* by R. Vainienė (ETŽ, 2005) and *The Explanatory English–Lithuanian Dictionary of Economics* by D. Pearce (AEA-LKŽ, 2006) and compared to the sources that covered e-dictionaries in English, i.e. <http://www-personal.umich.edu/~alandear/glossary/>, <http://ask.reference.com/>, <http://www.businessdictionary.com/>, <http://www.investopedia.com/>, <http://www.thefreedictionary.com/>, <http://www.qfinance.com/dictionary/>, <http://www.princeton.edu/~achaney/tmve/wiki100k/docs/>, <http://www.ventureline.com/accounting-glossary>.

Exploring the content of the definitions it was taken into account the usage of the term ‘money’ employed in defining the analysed concept. The investigation of the characteristics of the meaning was based on the theory created by B. Svensen (1987). The term ‘money’ when investigating the content of the definition was explained viewing from different aspects. The analysed characteristics of the meanings of the compared examples displayed the variety of information indicating the sameness, similarity, or interchangeable properties that coincided with the general and paraphrased meaning of the term, and the differences that did not conform with the general meaning in regard to the specificity of the term in the dictionaries in the one or the other compared language. Having investigated the characteristics of the meaning of the terms provided in the special dictionaries of the different languages it was found that the selected examples in regard to the characteristics of the meaning were not easy to assign to a particular group applying the basis of the theoretical material.

In finding out the general characteristics for the national (Lithuanian) terms in the special language of economics the analysis was carried out to determine the origin of the terms of the semantic group ‘money’. The investigation of the semantic group of the term ‘money’ presented the findings that highlighted the preference of the usage of the terms of the national origin, whereas the number of the analysed examples found of the international and / or hybrid origin was limited. The semantic group of the term ‘money’ was investigated in regard to the association based on the theoretical works by K. Gaivenis (1997) and S. Keinys (2005).

Also, the method of oppositions was used to determine the composition of the compared terms: the terms composed of the one-word, two-word, and three-word units in English were analysed in the opposition with the same and the different number of word units in Lithuanian. The investigated

examples of the terms covering the structure of the compounds consisted of the two-word units and represented the general concepts in the special language of economics.

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DEVELOPMENT OF SUSTAINABLE AND SOCIALLY RESPONSIBLE BUSINESS: A STAKEHOLDER PERSPECTIVE

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Abstract

The research explores sustainability and social responsibility under the approach of stakeholders relationships and their management. In this paper stakeholder theory is advanced as conceptual basis for developing stakeholder relationships guidelines in pursue of corporate sustainability and social responsibility. This article contributes to an understanding of the importance of managing stakeholder relationships for the achievement of better organizational performance. This research is mainly theoretical and follows deductive logic–practical construction method of theoretical perspective. It is based on a qualitative content analysis of academic literature concerning the raised issues.

Keywords: sustainability, corporate social responsibility, stakeholder management, relationships.

JEL Classification L21; M14; M10; M19.

Introduction

Social responsibility is not a new phenomenon. In 1975 Bowman and Haire had already identified headings such as Corporate responsibility, Social Actions, Social Commitment, Corporate Citizenship in annual reports. Social subjects have been a priority for many companies for more than a half century, even when there was no need to report on social aspects if the company did not want to (Albers and Günther, 2011). The debate concerning Corporate Social Responsibility (CSR) touches upon issues relevant to the phenomena of the modern economy and their consequences for individuals, societies, and organizations (Beurden and Gossling, 2008). Customer demands are rising, they ask for sustainable products. Increasing numbers of investors are not only looking at the financial performance in a corporation's portfolio, but are also valuing the way corporations meet their social responsibilities (Barnett and Salomon, 2006). Consequently the understanding of corporation gets a broader sense and includes not only financial orientation. If society can decide that corporations have responsibilities toward stakeholders, we can expect corporations to be held accountable for their social performance (Gossling, 2003). Recent literature on corporate social responsibility emphasizes the importance of the dialog firms should initiate with their stakeholders in order to align business activities with the interests of different social actors (Habisch et al., 2011). But this is not enough and it could be claimed that CSR is under-explored in respect of stakeholder involvement and management on strategic and operational levels. There is still no consensus on what exactly should be included in the social responsibility of organizations (Frederick, 1994; Griffin, 2000) and how to effectively manage stakeholders in pursue of

sustainability. Therefore in this paper stakeholder theory is advanced as conceptual basis for developing stakeholder relationships guidelines in pursue of corporate sustainability and social responsibility. This article contributes to an understanding of the importance of managing stakeholder relationships for the achievement of better organizational performance. There are many methods that might be applied to analyse how CSR is implemented through stakeholder management including literature analysis and studies, questionnaire surveys, structured and semi-structured interviews, and different forms of observations. This research is mainly theoretical and follows deductive logic–practical construction method of theoretical perspective. It is based on a qualitative content analysis of academic literature concerning the raised issues.

The paper is organised as follows. First, a short literature review of this research stream is given and important aspects which should be included in our analysis are identified. Then, theories explaining CSR and stakeholders are introduced. Subsequently, a research introduces stakeholder management and relationship aspects so as to effectively manage different interests of organization and stakeholders. Finally, the concluding remarks are presented.

Benefits of CSR and its implementation obstacles

The concepts of CSR and stakeholder theory are fundamental to the study of business and society (Maron, 2006). Corporate social responsibility may be thought of as the private provision of public goods or the private redistribution of profits to social causes. It may be motivated by a moral duty or by self-interest and may be voluntary or in response to social pressure (Baron, 2009).

In other words, SR is companies' ideology, politics and practice when they voluntarily follow the

principles of human, society and environment respect in the relations of all the stakeholders from society, business and government (Bagdonienė, Paulavičienė, 2010). Moreover, CSR, when incorporated by the organization contains, like Sustainable Development (SD), all three pillars: economic, ecological and social (Ebner and Baumgartner, 2006). Therefore, it is evident that company can contribute to sustainable development through its CSR activities if they coincide with those of sustainable development (Brilius, 2010).

Collaboration with stakeholders creates changes that would benefit both businesses and the public. However, it is relatively difficult to quantify the impact of the causal links between CSR actions and such financial indicators as market value of the stock price, return on assets or return on value added. First, some scholars predicted a negative impact of CSR on financial performance because CSR represents additional costs to the firm (McGuire, Sundgren, & Schneeweis, 1988; Riahi-Belkaoui, 1992; Shane & Spicer, 1983). From an agency theory perspective, Friedman (1970) asserted that CSR may cause firms to misallocate corporate resources that might otherwise increase shareholders' value. For example, managers can exploit CSR to fulfil their own personal interests such as building their careers and reputations. In addition, McGuire et al. (1988) maintained that firms incur extra costs in an effort to benefit society as a whole, and these costs often do not directly relate to firms' operations or generating profits (Lindgreen & Swane, 2010). For instance, communicating concern for social and environmental issues through advertising may enhance a firm's reputation, but provides no guarantee for immediate sales increases. A strongly supported perspective asserts that accounting-based performance does not reflect economic values of intangible assets such as customer satisfaction, brand, and reputation (Brown & Perry, 1994; Hopwood, 1972; Ittner & Larcker, 1998; McGuire et al., 1998). Since social initiatives do not generate immediate profits, non-operational related CSR activities may negatively relate to firms' accounting performances. Empirical evidence provided support for these views. Vance (1975), using surveys of managers and students who rated 50 leading firms according to perceived degree of social responsibility, found a negative association between rankings and stock performances. Wright and Ferris (1997) confirmed this association by examining US firms' stock performances after announcing divestment of South African assets.

Second, other scholars argued that CSR does not increase or decrease profitability of a firm (Abbott, Monsen, 1979; Alexander, Buchholz, 1978; Aupperle, Carroll, Hatfield, 1985; Chand, 2006; Griffin, Mahon, 1997; Teoh, Wong, Rao, 1998). These studies raised concern for any link found between CSR and financial performance might be misleading because of misspecification in the research design. For instance, in prior studies, the nature of the industry in which firms operate may have a strong influence on the results (Chand, 2006). These researchers contended difficulty for justifying a direct and clear link between CSR and financial performance.

Summarizing the analysed academic literature it can be claimed that following factors hold back the development of CSR:

1. The negation of profit maximization principle. The prevailing view is that the company must make a profit, and the government - to address social problems.
2. Social activity costs. Socially responsible business means additional costs that are offset by increase of production and / or service prices.
3. Lack of accountability to the public. Companies declare social activities by publicizing some common aspects of socially responsible business and rarely involve in real social activities because they do not feel responsibility for their actions.
4. Lack of ability to solve social problems. Each company personnel are trained to respond to changes in the market, but lack social problem solving experience. Social development is entrusted only to professionals working in the relevant state institutions.

It can be also noticed such flaws as follows: social responsibility often is able to apply only large enterprises; there is a lack of public support for companies which involve in social responsibility programs; there is no guarantee for the company's financial success; social activities of the organization cannot be measured, companies that apply several principles of social responsibility but breach other sustainable development principles mislead consumers.

The cost of social responsibility however, could be offset by benefits. For example, poor social and environmental ratings can harm a company's performance and reputation (Chatterji, et al., 2009,). Also the firms could benefit in the product market, first, if additional consumers are attracted or, second, if consumers' willingness to pay is greater. Third, CSR could benefit a firm if it shifts social pressure away from the firm. Fourth, if companies CSR builds a favourable reputation among citizens, the threat from social pressure could be mitigated. For example, a boycott could be less effective or reputation damage could be less if a firm had favourable reputational capital with citizens. Fifth, a firm could benefit if citizens obtain satisfaction from holding its shares (Baron, 2009). It must be also mentioned that CSR benefits are not always visible in the short term. CSR is an investment that can give the company a competitive advantage in the long term.

Having analysed CSR benefits and implementation barriers it is observed that there is no unanimous agreement on its contribution to society. It should be noted that while the companies do not follow the principles of solidarity and altruism, there will be difficult to fully implement social initiatives and to understand their significance, since the development of social responsibility will seek to get added value.

Social responsibility and stakeholder management theory

Sustainability and social responsibility is achieved through consideration of stakeholder needs and producing value to them. CSR comprises a number of corporate activities that focus on the welfare of stakeholder groups other than investors, such as charitable and community organizations, employees, suppliers, customers, and future generations (Sprinkle, Mines, 2010). There should be a relationship between internal competences and values to a firm's external environment.

Stakeholder theory requires that managers should allocate scarce firm resources according to intrinsic preferences of the organization's stakeholders – shareholder and investors, customers, employees, suppliers, wide community, etc. (Garcia-Castro *et al.*, 2011). However, stakeholders often have different views, needs, and expected outcomes (McGlone *et al.*, 2011). For example customers need good quality products or services, good prices, added value, after sale service, product/service guarantees, ethical and responsible behaviour, acceptable organizational values, assurance of customer rights, etc.; employees need higher wages, career opportunities, possibilities for development (qualification improvement), acknowledgement from management, secure and caring work environment, feel important (their opinion counts), stability, etc.; owners/investors need increased value of shares, safe investment, high company status, business expansion, return on capital; cost reduction, honest partners and clients, bigger market share, etc. How should the managers act and make decisions when there are so many different and often divergent interests/claims? And if the manager could qualitatively evaluate the results of the decisions, it could not be enough as the economic considerations might require quantitative forecasts. Again there is a lack of research on the long run perspective concerning the benefits from stakeholder management. Though it is claimed that all of the different corporate constituencies benefit from sustained superior firm performance in the long run (Garcia-Castro *et al.*, 2011; Barnea, Rubin, 2010; Jones, Wicks, 1999, Foote *et al.*, 2010) but the problem with the long-run view is that it assumes away some potential short-run “frictions” (Pralhad, 1997). And vice-versa if you deal only with the short-run perspective you can lose the wider view and it will sometimes be difficult to envisage the potential of stakeholder management over the long-run. Very often seeing only a short-run perspective can prompt to act differently (e.g.: should a manager increase wages to employees or freeze them to maintain or increase current stock profitability?) and make decisions that from long-run perspective should have been assumed as wrong and decrease the created value for shareholders and employees.

Some words must be mentioned about critics/opponents and proponents of stakeholder theory. Opponents claim that organizations are not a political institution and the owners of organizations must decide what interests to take into account keeping in mind prudence and ability to create value. Actually it is very

difficult to answer the question “What is the best way to govern organization?” As it was mentioned above opponents tend to keep single value objective, i.e. they propagate the value maximization to shareholders and according to that value organization's success must be measured. It is apparent that proponents of stakeholder theory do not agree with this and claim that such goal of an organization is too narrow and does not take into account multiple interests of other stakeholders which lead to an increase in the overall total good created by the enterprise (Singer, 2012). They affirm that from long term perspective the effective relationships could generate wealth to organization as well. Therefore for opponents if pursuit of shareholder wealth is no longer valid, there is no one decisive group and the balance must be found among different groups. Then how should organizations make proper decisions when shareholders or owners are not the only ones to make decisions and share wealth? Can different interests be taken into account without harm to shareholders? Consequently one more aspect that the opponents of stakeholderism use is that there is no proved evidence that stakeholder approach generates wealth to the organization or has a positive effect on its activity. This leads to the conclusion that taking into account other stakeholders can have positive impact on these stakeholders but shareholders will not be happy with that as there is no evidence that it creates value. But this dilemma can be solved viewing it from the point of understanding that nobody will try to prove that doing bad (or taking into account only own interests and ignoring others) you can achieve good results. It is not the aim of this research to involve into this debate. The authors of the paper tend to keep wider approach than opponents of stakeholder theory and think that causality allows to claim that what is positive in the result/effect it must be positive in the cause as well and that appropriate models can contribute to explaining of the above mentioned disputable issues.

Having analyzed different approaches it can be noticed that the traditional distinction between the descriptive, instrumental, and normative dimensions as well as pros and cons of stakeholder theory are thoroughly analyzed by the scholars, whereas practitioners tend to link everything into a single stakeholder approach, where wealth-creation objectives and moral matters are considered jointly.

The stakeholder management holds the capacity of a business enterprise to generate sustainable wealth over time, and hence its long-term value is determined by specific core competencies concerning its dynamic relationships with critical stakeholders (Rühli, Sachs, 2005).

The majority of the academic literature seeks to find the suitable foundation for stakeholder management where more often stakeholder management is understood as an issue not only for a particular managers but rather for the whole organization, and tries to answer the question: “What is the best way to manage/govern the organization and its stakeholders?” The purpose of stakeholder management is to learn about stakeholders and their needs through the on-going analysis. This position generates many more questions such as: “How

are stakeholders identified?”, “How are their needs discovered?”, “How much attention does each stakeholder or a group of stakeholders deserve or require?”, “How should the management act when stakeholder interests diverge?”, “How to harmonize /align / balance different interests?”, “How can stakeholder management be assessed for effectiveness and efficiency?”

Process approach can determine effective stakeholder management and mutual benefits in the long run, i.e., effective stakeholder management aims at ensuring that relationships with all types of stakeholders generate wealth consequently the possible increase in total wealth can generate organization’s capacity to generate stakeholder benefits. This suggests a wide-ranging perspective to understand organization’s strategic behaviour and success where the effective stakeholder management system discloses issues that are important to the stakeholder management process, gives a better understanding how the processes work and where relevant issues should be addressed to.

Stakeholder analysis and relationship strategies

Stakeholder analysis can be executed by identification of them and defining them according to the attributes, interaction and interests in relationship with the dealt issue. These are the steps for stakeholder analysis:

1. Identification of stakeholders.
2. Prioritization of stakeholders.
3. Understanding stakeholder needs and interest and the level of specific interests.
4. Integrating stakeholder needs into organization’s performance plans.

How do we know when a stakeholder’s or their group’s interest must be taken into consideration and/or given a priority? First, if a stakeholder’s or their group’s presence and/or support has positive effect on organization’s performance and organization / management can benefit from them in dealing with the issue, then it should be taken into account.

Defining stakeholders. To date the literature on stakeholders has focused on three principal issues. The first concerns who should count as a stakeholder, with the argument revolving around how inclusive the definition of stakeholder should be (Thomas, Poister, 2009). The second issue concerns when and how to involve stakeholders in organizational affairs. Finally, the third issue relates to when and how particular stakeholders may mobilize around a particular organizational issue (Rowley, Moldoveanu, 2003).

With respect to identification of the stakeholders a number of useful frameworks exist, some that take a very particular angle (for example a market orientation), and some that assume a purely transactional (input-output) view is sufficient (Freeman 1984; Porter, 1980). However, other approaches see stakeholders as being more heterogeneous, and recognise that differences in organizations’ strategic environments will significantly affect who their stakeholders are (Rawlins, 2006). So paying attention to, and managing, a specific set of stakeholders is likely to have a powerful effect on the feasibility of an organization achieving its strategic goals

and thus helping assure its long-term viability. But even when an organization identifies these particular and appropriate stakeholders, the list can still be extensive, and managers must decide which of the many stakeholders identified must be addressed if their strategy is to succeed; in other words, they must identify stakeholder salience e ‘the degree to which managers give priority to competing stakeholder claims’ (Mitchell *et al.*, 1997).

Clarkson (1995) offered a well-respected distinction between primary stakeholders, i.e., essential to the firm, and secondary stakeholders, i.e., have an influence or are influenced by the firm and they are not essential to the survival of the corporation. Rawlins (2006) has attempted to identify stakeholders focusing on their relationships to organization. His model has four linkages that identify stakeholder relationships to an organization: enabling linkages (have control and authority), functional linkages (provide labour, resources, i.e., create products or services, and consume products or services), diffused linkages (become involved depending upon the actions of organization), and normative linkages (have common interests). In the first step the organization should attempt to identify all stakeholders before narrowing them by their attributes.

Prioritization / classification. The stakeholder classification system proposed by Mitchell *et al.* (1997) is a valuable tool that deserves attention. Mitchell *et al.* (1997) identify stakeholders based on the criteria of power, legitimacy, and urgency. Power refers to a stakeholder’s ability to influence other parties to make decisions the party would not have otherwise made, i.e., to impose its interests on the firm. Legitimacy is determined by whether the stakeholder has a legal, moral, or presumed claim that can influence the organization’s behaviour, direction, process or outcome. Urgency has to do with whether or not the stakeholder’s interests require immediate action or not and how the relationship is critical to the stakeholder. Referring to these three attributes stakeholders are classified as dormant, discretionary, demanding, dominant, dangerous, dependent, or definitive depending on whether they have one, two, or three of these attributes and which ones they have. Definitive stakeholders have all three criteria.

General experience and research reveal that the importance of different stakeholders groups varies according to the issues that organization has to deal:

- Customers are the most important when quality of products are discussed.
- Employees when safety at work is discussed.
- Community or government – environmental problems.

Some issues are important to one stakeholder some to other stakeholders. Priorities have tendency to change; new stakeholder groups emerge in reaction to changing circumstances.

Analyzing different thoughts of scholars, several prioritization criteria can be identified: (a) according to above mentioned attributes and (b) by relationship to the situation. E. Grunig (2005) developed the situational theory which can identify which stakeholders will “communicate actively, passively, or not at all about

organizational decisions that affect them.” It depends upon four aspects: level of involvement (to what extent people relate themselves with the situation), problem recognition (people start to act when they see the connection between them and a problem), constraint recognition (people who tend to think that they cannot influence the problem solution and are apt to be passive), and referent criteria (when people use their experience to apply to new situations where organization is involved). Therefore, stakeholder list for every organization does not remain the same and is very dynamic.

Considering all attributes the organization alongside with them will have to find the answers to more questions “What are the stakeholder’s interests that intersect with the organization goals? Does the organization have the information about a particular stakeholder on satisfaction concerning the relationships with the organization? Are there any problems the stakeholders might have with the organization? What are the existing channels of communication and feedback with each stakeholder group? Is there enough information or are there any information gaps that need to be filled? Is the matter urgent to stakeholder? Does a stakeholder or their group have legal, moral, or presumed claim that can influence the organization’s behaviour, direction, process or outcome?

By anticipating and managing stakeholder relationships to organizational strategies, actions can be put in place that either capitalize on potential of positive responses or reduce or eradicate negative responses. Therefore different tactics/strategies with different stakeholders and this could be as follows:

To strengthen the support from *prospective (have power, interest and are benevolent) supporters*:

- Supply them with the information about potential benefits and costs that can increase their beliefs;
- Involve them in discussing the issues;
- Ask them to promote the strategy to neutral stakeholders if their support is needed;
- Ask prospective supporters to share their opinion on strategies and what changes should be done in order to turn them to actual supporters.

To deal with *problematic (have power, interest but low benevolence, reliability) stakeholders*:

- Have a defensive plan if problematic stakeholders form a coalition with antagonists.
- Take cautious actions to educate problematic stakeholders and show the strategies in more appealing way;

To maintain the support of *low-priority stakeholders*:

- Involve low-priority stakeholders into a coalition of other supporters to have a bigger supportive coalition

To reduce the influence of potentially *antagonistic (not benevolent) stakeholders*:

- Involve supportive stakeholders who are closely related to antagonistic stakeholders to work with them;
- Do not allow to form coalitions among antagonistic and neutral stakeholders;
- Do not allow antagonistic stakeholders to bring potential supporters over to their side
- Limit or stop spreading the information to antagonistic stakeholders to prevent them to be active or form coalitions;
- Foresee the arguments of the antagonists and develop counterarguments in advance
- Negotiate with antagonists to identify their point of view and offer modifications in order to turn them to neutral position or even supporters.

Concluding remarks

In order to continue to have value in management practice and even improvement of the world it is important for companies to seek sustainability and social responsibility which could be achieved through successful stakeholder management. Stakeholder management implies different kind of relationships with them. In practice, companies can efficiently manage behaviour of its stakeholder and benefit from the relationships as very often different stakeholders can provide critical contributions due to attention to their interests.

In business it is not easy to reconcile various interests, but those differences can excite the creative combination of business processes to generate mutual benefits. Diverse array of stakeholder functions is an integral part of the organization's health as the various organs of the human body. All organs are important because they are essential biological components of the system as well as shareholders, employees, consumers and other stakeholders who carry out important functions in the socio-economic system which we call the organization. The whole point of stakeholder management is how to turn stakeholder issues which can cause problems and conflicts to the source of a strategic advantage in pursue of sustainability and social responsibility.

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Dalia Susnienė, Gediminas Sargūnas

DEVELOPMENT OF SUSTAINABLE AND SOCIALLY RESPONSIBLE BUSINESS: A STAKEHOLDER PERSPECTIVE

Summary

Customer demands are rising, they ask for sustainable products. Increasing numbers of investors are not only looking at the financial performance in a corporation's portfolio, but are also valuing the way corporations meet their social responsibilities (Barnett and Salomon, 2006). Consequently the understanding of corporation gets a broader sense and includes not only financial orientation. If society can decide that corporations have responsibilities toward stakeholders, we can expect corporations to be held accountable for their social performance (Gossling, 2003). Recent literature on corporate social responsibility emphasizes the importance of the dialog firms should initiate with their stakeholders in order to align business activities with the interests of different social actors (Habisch et al., 2011). But this is not enough and it could be claimed that CSR is under-explored in respect of stakeholder involvement and management on strategic and operational levels. There is still no consensus on what exactly should be included in the social responsibility of organizations (Frederick, 1994; Griffin, 2000) and how to effectively manage stakeholders in pursue of sustainability. This article contributes to an understanding of the importance of managing stakeholder relationships for the achievement of better organizational performance.

Collaboration with stakeholders creates changes that would benefit both businesses and the public. However, it is relatively difficult to quantify the impact of the causal links between CSR actions and such financial indicators as market value of the stock price, return on assets or return on value added. First, some scholars predicted a negative impact of CSR on financial performance because CSR represents additional costs to the firm (McGuire, Sundgren, & Schneeweis, 1988; Riahi-Belkaoui, 1992; Shane & Spicer, 1983). From an agency theory perspective, Friedman (1970) asserted that CSR may cause firms to misallocate corporate resources that might otherwise increase shareholders' value. For example, managers can exploit CSR to fulfil their own personal interests such as building their careers and reputations. In addition, McGuire et al. (1988) maintained that firms incur extra costs in an effort to benefit society as a whole, and these costs often do not directly relate to firms' operations or generating profits (Lindgreen & Swane, 2010).

Process approach can determine effective stakeholder management and mutual benefits in the long run, i.e., effective stakeholder management aims at ensuring that relationships with all types of stakeholders generate wealth consequently the possible increase in total wealth can generate organization's capacity to generate stakeholder benefits. This suggests a wide-ranging perspective to understand organization's strategic behaviour and success where the effective stakeholder management system discloses issues that are important to the stakeholder management process, gives a better understanding how the processes work and where relevant issues should be addressed to.

Considering all attributes the organization alongside with them will have to find the answers to more questions "What are the stakeholder's interests that intersect with the organization goals? Does the organization have the information about a particular stakeholder on satisfaction concerning the relationships with the organization? Are there any problems the stakeholders might have with the organization? What are the existing channels of communication and feedback with each stakeholder group? Is there enough information or are there any information gaps that need to be filled? Is the matter urgent to stakeholder? Does a stakeholder or their group have legal, moral, or presumed claim that can influence the organization's behaviour, direction, process or outcome?"

In business it is not easy to reconcile various interests, but those differences can excite the creative combination of business processes to generate mutual benefits. Diverse array of stakeholder functions is an integral part of the organization's health as the various organs of the human body. All organs are important because they are essential biological components of the system as well as shareholders, employees, consumers and other stakeholders who carry out important functions in the socio-economic system which we call the organization. The whole point of stakeholder management is how to turn stakeholder issues which can cause problems and conflicts to the source of a strategic advantage in pursue of sustainability and social responsibility.

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DIFFERENCES OF FEMALE AND MALE LEADERSHIP IN THE CONTEXT OF LEADERSHIP COMPETENCE

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Abstract

The contemporary world caused the gender issue in leadership to surface in an entirely new angle which in turn impacted the occurrence of female leadership as a recent phenomenon and its separation from male leadership. The goal of the paper is to determine the elements of the male and female leadership competence on the individual level. According to empirical research, it is possible to find matching assessments of leadership competencies by men and women, certain significant differences exist as well. For women leadership is rapidly becoming an important and pivotal factor on an individual level while men find the significance of this competence declining. This in turn allows confirming the insights on the increasing limitations of the traditional leadership in the contemporary environment.

Keywords: male, female, leadership, competence.

JEL Classification: M12.

Introduction

Like many other social processes, leadership is a complex and difficult to assess phenomenon. New possibilities of researching the said matter are emerging due to the diverging approach towards leadership prevalent during scientific discussions. For a long time the scientific studies of leadership have been dominated by the following two approaches: trait theory and process theory. Mann (1959), Bleik and Mouton (1985), and Stogdil (1974), the first researchers of trait leadership focusing on the traits and attributes inherent to a leader and believing that the leadership traits were hereditary and could not be developed. According to the supporters of the process theory (Bass, 2000; Conger and Kanungo, 1998; Gardner, 1995; and Rost, 1995), firstly, leadership is a process of influence and interaction between the leader and the followers whereby it is attempted to achieve certain goals. The traditional view of leadership prevalent in both of the said approaches presupposed the peculiarities of gender differences in leadership. The necessity to make urgent decisions or resort to extreme means and the dominance of willpower traits influenced the fact that leadership was deemed to be an exclusively male profession. The contemporary world caused the gender issue in leadership to surface in an entirely new angle which in turn impacted the occurrence of female leadership as a recent phenomenon and its separation from male leadership. The possibilities of traditional leadership were limited by the undergoing global changes and dynamic nature of the environment. The requirements set for organizations to become more flexible, employ teamwork, trust and information exchange became more important than the inflexible

organizational structures, competitive individualism, control and secrecy. The advantages of female leaders tend to lie in their soft management skills: team formation, interaction, reaching a consensus and the ability to change. All of these traits ordained the fact that women became superior to the traditional leadership approach. Intense studies of the similarities and differences in male and female leadership were started in scientific literature (Beverly, 2010; Werhane, 2007; Jogulu, Glenice, 2006; Wood, 2005; and Bass, 2000). Nevertheless, it should be noted that generally these differences are researched by comparing male and female leaders, i.e. individuals in certain managing positions, and by determining their typical personal qualities and behavioral traits. However, such nature of studies fails to fully reveal the key peculiarities of male and female leadership as female leaders do not always follow the traits of female leadership and, on the contrary, tend to frequently rely on male leadership tendencies.

Presently, possibilities exist to form new insights about the male and female leadership. This chance has been granted by new approaches towards the studies of the phenomenon of leadership itself and its subject. On one hand, the modern trait theories have made a transit from studying leader traits to defining the prerequisite skills and attributes for a leader (Clark, 1996; Mumford et al, 2000; Bristow et al, 2005). During the recent years leadership has been viewed as both a set of skills and competence (Šilingienė, 2011). On the other hand, the approach to the leadership subject has expanded as well. The contemporary approach towards organization management emphasizes that leadership is a significant matter not only to the managing personnel but also to

each individual irrespective of his/ her position. Leadership is started to be seen as both an exceptional quality of several managers of the highest level and as ability held by all people. Thus, approaching leadership as a competence by transitioning the focus from the frames of a specific organization towards an individual person seeking his/ her personal career goals conditions a wider approach towards gendered leadership. This in turn allows determining the *research question*, i.e. which elements of leadership competence are of significance on the individual level in terms of male and female leadership.

The goal of the paper is to determine the elements of the male and female leadership competence on the individual level.

Employed research methods are as follows: analysis and synthesis of scientific literature with the aim to reveal the peculiarities of male and female leadership and define leadership as competence; quantitative research by using a questionnaire-based survey with the aim to determine empirically the manifestation of leadership competence in terms of male and female leadership.

Theoretical background

The following two key tendencies of attempting to give explanation to the problem of male and female leadership are noticed in scientific researches:

1. studies of the similarities and differences between male and female leaders, and
2. studies of the male and female leadership styles.

Trait studies of male and female leadership. Many researchers participating in scientific discussions attempted to explain what factors determine that some people become leaders and others do not, and what the individual's possibilities to take the lead in different situations are. Even though a unique personality due to its individual traits is unquestionable, scientific researches have determined correlations between the peculiarities of undertaken activities and personal attributes conditioned by distinct personal qualities and behavior type. Researches have given proof that there are certain personal traits and behavior indicators which assist in attaining successful leadership.

The longevity of trait leadership researches lasting for more than a hundred years show that the research object, i.e. personal qualities of a leader is conceptual and important in the leadership process. The key leadership attributes revealed in many of the empirical researches are categorized into the following four main groups (Stogdill, 1974, Spencer, Spencer, 1993):

1. physical traits (appearance, height, health, sex, etc.).
2. willpower (expedience, courage, decisiveness, confidence, etc.).
3. social traits (extraversion, empathy, etc.).
4. values (responsibility, honesty, reliability, etc.).

Therefore, according to the scientists the physical traits of a leader are also of significance in the leadership

process. Even though no clearly dominating tendencies have been determined when comparing other personal qualities of leaders, the researchers are especially interested in one of the physical traits of leaders, i.e. their gender. This interest is preordained by highly evident trends in leadership. If back earlier leadership was a field exclusively dominated by men, the modern times had brought in unmistakably large changes – more and more women are becoming successful leaders. In addition, certain opinions are gaining popularity rapidly stating that female leadership is much more effective in contemporary society compared to the male one and that women are better CEOs of corporations (Pfeifer, 2013).

Different approaches to manifestation of gender differences in leadership have been presupposed during the scientific discussions in the recent years. The researches are often focused on looking for general and different attributes of male and female leaders. Two approaches towards the gendered leadership problem are clearly distinguished in scientific literature.

The first approach highlights the absence of gender differences in leadership, i.e. male and female leaders are in no way different and should be viewed the same (Brinia, 2011, Andersen, Hansson, 2010). This attitude tends to focus on the possibility to identify the male and female behavior style which can change based on the circumstances rather than an unvarying behavior ordained by the gender. The leadership peculiarities are associated with individual qualities, character, and temperament as opposed to gender. Sex is deemed to be a singular and insignificant difference of achieving one's task. The meaning of context to the peculiarities of leadership is accentuated much more.

The second approach is centered around the declared differences of male and female leadership and their advantages and disadvantages, i.e. the male and female leaders are absolutely dissimilar and have to be handled differently (Powell, 2012, Arnold, Loughlin, 2013). The forte of male leaders is that they are result-oriented, capable of focusing on financial ratios, giving instructions and controlling them. Meanwhile, the female leadership holds such attributes as active interaction with subordinates and identifying oneself with the group. Female leaders are distinguished for their strategic thinking, improved skills in working with people and higher level of readiness to take a risk and apply novelties. Thus, the results of recent studies denote the following qualities as the forte of female leaders: team formation, interaction, and reaching a consensus, i.e. the females are superior to males in many of the soft management areas.

Other scientists distinguish three main paradigms of the gender issue instead of two (Jonsen, Maznevski, Schneider, 2010). In addition to the handling and negating of gender differences in leadership these researchers also discern a third approach, i.e. men and women are not too different from each other, yet, the society is of the opinion that they are and certain barriers are raised by such stereotypes. Even though an increasing number of people have no doubts over the equality of the capabilities of males and females, it is often the subconscious gender stereotypes that become an obstacle

in acknowledging women as potential leaders. The established stereotypes impact the career of women and create certain barriers by deeming leadership to be a male rather than female prerogative and introducing higher requirements for female leaders compared to the male ones (Prime, 2008; Šimanskienė, 2006).

Studies of male and female leadership styles. If the trait male and female leadership studies is yet to lead to a consensus, the differences in terms of the behavior inherent to the male and female leadership may be handled rather unambiguously. Most often the researchers put the two leadership styles in contrast: the male one of command-and-control and the female one of people-centered leadership (socialize and come to an agreement). Werhane (2007), Jogulu, Glenice (2006), Wood (2005), discern the following female leadership attributes: communicativeness, understanding, emotionality, helpfulness, sensitivity, thoughtfulness, sociality, collaboration, responsible attitude towards work, intellect, honesty, expressiveness and intuition. Meanwhile, male leadership has the following inherent attributes: focus on the goal, results and rewards, ambition, aggressiveness, assertiveness, courage, domination, strength, self-sufficiency, independence, logic and analyzing.

Bass (2000) believe that males tend to choose the transactional leadership style which is distinguished for its competitiveness, aspiration for power, focus on financial ratios, high level of control, individual making of decisions and analytical solution of problems. On the other hand, the female leadership style is associated with strategic thinking, low level of control and making decisions based on intuition. The female leadership is often described as transformational and based on personal respect, team formation, mutual trust and appreciation of the input of all team members.

When summarizing the contemporary study approaches towards gendered leadership problems, it should be noted that no unanimous opinion exists. Therefore, it is purposeful to expand the scientific researches of this field with new leadership study aspects when looking for fresh male and female leadership facts. The scientific theories formulated to explain the phenomenon of leadership are most often focused on its pivotal role by ensuring the efficiency of separate individuals, teams and organizations and associating it with high positions and responsibilities. During the recent years the scientific studies had certain tendencies further developing both the object of leadership, i.e. the matter which is comprehended as leadership, and its subject, i.e. in terms of what or who the leadership is applied. As leadership is conceived as skills and competence rather than a process, the subject of leadership is also expanded, i.e. leadership competence is depicted for both the supervisor and the employee on the level of organization, and for any person who strives for his/ her personal life and career goals on the individual level (Šilingienė, 2011). Thus, one of new directions of studying gendered leadership is an attempt to determine the peculiarities of male and female leadership in the terms of leadership competence rather than personal qualities and leadership style.

Research methodology

The leadership competence was incorporated into the general competence structure by employing the principle of leadership competence model in the form of pyramid based on the methodological empirical research of the peculiarities of male and female leadership. Back in 1955 Katz suggested a three-skill model according to which an efficient leadership depended on three consecutive key skill groups: technical, human and conceptual (Northouse, 2004). Starmer (1998) offered to use a leadership pyramid consisting of several levels, starting with technical knowledge and ending with personal attributes. Even though all the pyramid levels are important and inter-related, the higher level is reached by a person, the more leadership competence he/ she receives (Šilingienė, 2011).

Leadership is defined as competence by employing its incorporation in the general competence model and distinguishing five basic competence levels (Fig. 1).

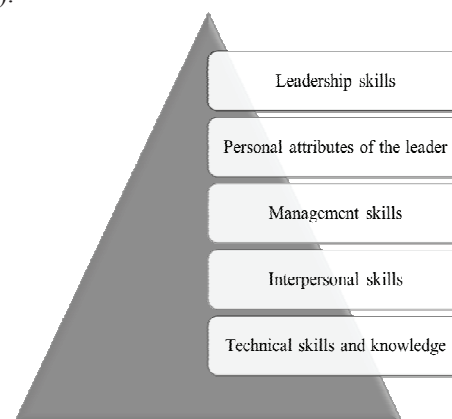


Figure 1. General competence model

All five competence groups are further categorized into specific elements as shown in Table 1.

The goal of the empirical research was to determine how much leadership as competence and which of its elements were important to men and women in terms of their personal career. The empirical research was carried out in 2010 and 2012 in a group of students studying for the master's degree in business and management. During the research the competence need was not associated with any specific organization but it was focused on the perspective of successful long-term personal career. The first results of this research were announced in 2011 (Šilingienė, 2011); however, they highlighted only the general tendencies of leadership as competence without interpreting the results in terms of gender. This article presents a study of the research results of 2010 in terms of gender as it aims to discern the male and female leadership in the context of leadership competence rather than personal qualities or leadership style. An additional research was carried out two years later with the purpose to verify the tendencies distinguished in 2010 and to identify the possible changes in male and female leadership.

Table 1

General competence groups and elements

| Competence group level | Competence group | Key competence elements |
|------------------------|-----------------------------------|--|
| I | Technical skills and knowledge | knowledge in the field; experience; work procedures and methods; ability to upgrade knowledge |
| II | Interpersonal skills | socialization; ability to listen; honesty; reaction to mistakes and feedback; tolerance to variety; ability to understand and motivate others; teamwork skills |
| III | Management skills | understanding of business; entrepreneurship; strategic tendencies; global thinking; making decisions; organizational skills; team formation and management |
| IV | Personal attributes of the leader | charisma; self-confidence; responsibility and commitment; inspiring motivation; empathy; positive thinking; initiative; courage, decisiveness |
| V | Leadership skills | formulation of vision and goals; presentation of vision and goals; emotional competence; self-presentation skills; image building; public speaking skills; empowerment |

The paper had the following two main goals:

1. to determine which leadership competence group was the most important to men and women seeking a successful individual career;
2. to assess the need of which leadership competence elements was the most important in the opinion of male and female respondents.

A qualitative research, i.e. questionnaire-based survey, was carried out. The participants of the survey in 2010 included 34 women and 15 men while the respondents of the survey in 2012 consisted of 14 women and 13 men. The key competence elements presented in the questionnaire were discerned based on the competence model of elements described in the methodological part, i.e. *personal attributes of the leader* and *leadership skills*. The assessment of the significance of the leadership competence groups and their elements was performed by employing the Likert 5-point scale (1 – absolutely unimportant, 5 – very important). The significance level for the differences between the estimated values was defined as the difference between the means.

Research results and discussions

General results. The analysis of the received results for both years without identifying the differences in the gendered leadership competence showed that the importance of both leadership competence groups was sufficiently high, i.e. the mean assessment was higher than 4. Yet, the importance of *personal attributes of an individual* (4.173) for the personal career was deemed higher than the importance of *leadership skills* (4.133). The distribution of research results according to the importance of both competence group elements (Table 2) showed that the top five of the list of the most significant competence elements included 3 elements from the *personal attributes of the leader group* (self-confidence, responsibility and initiative) and 2 elements from the *leadership skills* group (self-presentation skills, presentation of vision and goals). The seemingly less important elements (the significance of which was evaluated to be less than 4) come from leadership competence groups, the dominating one of which is the *leadership skills* group. These results demonstrate the respondents' choice of priority of *personal leadership attributes* over *leadership skills* on individual level in terms of successful long-term career.

Table 2

The importance of leadership competence elements

| | | | |
|--------------------------------------|-------|-----------------------------|-------|
| <i>Self-confidence</i> | 4.584 | <i>Decisiveness</i> | 4.172 |
| <i>Responsibility and commitment</i> | 4.512 | <i>Inspiring motivation</i> | 4.127 |
| <i>Initiative</i> | 4.500 | <i>Positive thinking</i> | 4.097 |
| Self-presentation skills | 4.361 | Emotional competence | 4.084 |
| Presentation of vision and goals | 4.247 | <i>Charisma</i> | 4.035 |
| Formulation of vision and goals | 4.236 | Image building | 3.930 |
| Public speaking skills | 4.190 | Empowerment | 3.883 |
| <i>Courage</i> | 4.184 | <i>Empathy</i> | 3.348 |

General results in terms of male and female leadership showed that even though it is possible to find matching assessments in this case, not all of the elements of the leadership competence groups are assessed as equally important (see Table 3).

As can be seen from the presented data, the females tend to consider *public speaking skills* (2nd place in terms of importance) as highly consequential. Meanwhile, males believe it to be a totally useless competence element (13th place in terms of importance). According to men, the competence of *image building* has no large significance upon personal career (14th place in terms of importance), while the women believe this competence to be important (8th place in terms of importance). The assessment of averagely important competence elements by males and females is sometimes significantly different: the men prefer *formulation and presentation of vision and goals* and the women value *responsibility*. Also, men believe such personal qualities

as *courage* and *decisiveness* to be important to individual career much more compared to women.

Table 3

Ratings of leadership competence elements according to gender

| | Women | Men |
|--------------------------------------|-------|-----|
| <i>Responsibility and commitment</i> | 1 | 8 |
| Public speaking skills | 2 | 13 |
| <i>Self-confidence</i> | 3 | 1 |
| <i>Initiative</i> | 4 | 2 |
| Self-presentation skills | 5 | 4 |
| <i>Positive thinking</i> | 6 | 12 |
| Presentation of vision and goals | 7 | 5 |
| Image building | 8 | 14 |
| Inspiring motivation | 9 | 9 |
| Emotional competence | 10 | 11 |
| Formulation of vision and goals | 11 | 3 |
| <i>Decisiveness</i> | 12 | 7 |
| <i>Courage</i> | 13 | 6 |
| Empowerment | 14 | 15 |
| <i>Charisma</i> | 15 | 10 |
| <i>Empathy</i> | 16 | 16 |

In respect to the research results, it can be stated that female leadership is perceived as taking responsibility and demonstrating excellent public speaking skills and self-confidence, while male leadership is a display of self-confidence by taking the initiative and presenting the vision and goals in a transparent and attractive manner.

Results of the research of leadership competence changes throughout 2010 and 2012. The analysis of the changes of the leadership competence group importance in terms of time passage and as defined by the respondents shows that the importance of *leadership skills* has increased while the significance of *personal attributes of the leader* while remaining sufficiently important (the mean importance assessment is higher than 4 points) has decreased (see Table 4).

Table 4

Change in leadership competence group importance throughout 2010 and 2012

| | <i>Personal attributes of the leader</i> | | | <i>Leadership skills</i> | | |
|------|--|-------|-------|--------------------------|-------|-------|
| | Total | Women | Men | Total | Women | Men |
| 2010 | 4.232 | 4.239 | 4.215 | 4.102 | 4.105 | 4.095 |
| 2012 | 4.115 | 4.198 | 4.026 | 4.164 | 4.398 | 3.912 |

The shifts in the respondents' opinions when assessing the importance of the separate elements of leadership competence groups on personal career were studied to analyze what conditioned the said changes in more detail (see Table 5). The importance of the *leadership skills* group grew in 5 cases out of 7, and that of the *personal attributes of the leader* group in 3 cases out of 9. Despite the shift in the importance assessment, the same elements remained as the most significant elements in the *personal attributes of the leader* group,

i.e. *responsibility*, *self-confidence* and *initiative*. This showcases the key importance of the elements of these groups on the personal career of a person on individual level. It should be noted no changes occurred in the assessment of the least important elements either: both in 2010 and 2012 *charisma* and *empathy* had the lowest influence on a successful personal career. Meanwhile, the shifts in terms of the most significant and least important elements in the *leadership skills* group were of higher consequence. If the most important elements in 2010 were *public speaking skills* and *self-presentation skills*, the focus shifted in 2012 onto *self-presentation skills* and *presentation of vision and goals*. The least important elements included *emotional competence* and *authorization* in 2010, and *authorization* and *image building* in 2012.

Table 5

Assessment of the leadership competence elements in 2010 and 2012

| | 2010 | | | 2012 | | |
|--|-------|-------|-------|-------|-------|-------|
| | Total | Women | Men | Total | Women | Men |
| <i>Personal attributes of the leader</i> | | | | | | |
| Responsibility | 4.653 | 4.853 | 4.200 | 4.370 | 4.500 | 4.231 |
| Self-confidence | 4.612 | 4.588 | 4.667 | 4.555 | 4.500 | 4.615 |
| Initiative | 4.408 | 4.412 | 4.400 | 4.593 | 4.429 | 4.769 |
| Courage | 4.368 | 4.324 | 4.467 | 4.000 | 3.929 | 4.077 |
| Positive thinking | 4.306 | 4.353 | 4.200 | 3.889 | 4.143 | 3.615 |
| Decisiveness | 4.306 | 4.265 | 4.400 | 4.037 | 4.000 | 4.077 |
| Inspiring motivation | 4.143 | 4.147 | 4.133 | 4.111 | 4.143 | 4.077 |
| Charisma | 3.959 | 3.912 | 4.067 | 4.111 | 4.143 | 4.077 |
| Empathy | 3.326 | 3.294 | 3.400 | 3.370 | 4.000 | 2.692 |
| <i>Leadership skills</i> | | | | | | |
| Public speaking skills | 4.306 | 4.412 | 4.067 | 4.074 | 4.786 | 3.308 |
| Self-presentation | 4.204 | 4.206 | 4.200 | 4.519 | 4.571 | 4.462 |
| Formation of vision and goals | 4.102 | 4.059 | 4.200 | 4.370 | 4.214 | 4.538 |
| Presentation of vision and goals | 4.123 | 4.059 | 4.267 | 4.371 | 4.429 | 4.308 |
| Image building | 4.082 | 4.088 | 4.067 | 3.778 | 4.214 | 3.308 |
| Emotional competence | 4.021 | 4.000 | 4.067 | 4.148 | 4.286 | 4.000 |
| Empowerment | 3.878 | 3.912 | 3.800 | 3.889 | 4.286 | 3.462 |

Results of the study on the leadership competence changes throughout 2010 and 2012 in terms of male and female leadership. The results of gender manifestation revealed highly consequential differences in assessing leadership competence importance (see Table 4). While according to female assessment the significance of *personal attributes of the leader* decreased slightly (a difference of -0.041) to 4.198, the *leadership skills* constituent surged (a difference of 0.293) up to 4.398. Meanwhile, men assessed both of these leadership

competence groups as significantly less consequential, i.e. the importance of the *personal attributes of the leader* fell (a difference of -0.189) to 4.026, and that of *leadership skills* plummeted down (a difference of -0.183) to 3.912. These results lead to the conclusion that there are facts attesting significant differences of leadership in terms of gender: leadership is rapidly becoming a decisive and pivotal factor on individual level for women. Men find the value of this competence declining which in turn signifies certain insights concerning the increasing limitations of the traditional leadership in the dynamic contemporary and global environment. It was the study of the leadership competence changes in terms of gender that allowed identifying the relevant new facts about male and female leadership and approval of the theoretical statement that female leadership may be seen as an occurrence of a new phenomenon and its possible separation from male leadership.

The discussion of the shifts of the importance of the separate elements of the leadership groups in terms of gender shows that the beliefs of men and women are distinct; however, it is impossible to determine its statistical significance due to the exceedingly small sample.

It should be noted that in 2012 the opinions of males and females on the importance of the competence elements titled as *responsibility* and *empathy* were fundamentally different. According to women, the impact of *responsibility* on a successful individual career decreased in 2012, yet, remained the most important one. On the other hand, men stated that the importance of this constituent grew and it was enlisted among the three most consequential competencies. Women believed that the significance of *empathy* on a successful career in 2012 highly increased while the man said it went down greatly. Such shifts in terms of *responsibility* can be explained by analyzing the changes in importance assessment in the *leadership skills* competence group: in 2012 the females tended to share the responsibility with others (the importance of *empowerment* rose up) while the opinion of males was fundamentally different: the impact of *responsibility* on career increased and it was implemented by reducing *empowerment*, i.e. by undertaking the entire responsibility to oneself rather than sharing it with others. The results in terms of *public speaking skills*, *image building* and *emotional competence* were radically different as well: the males believed that in 2012 the influence of these elements plummeted while the females stated that it increased. Such shifts in the competence importance could be influenced by the changed economic conditions and the differences in male and female behavior: in case of a crisis, men tend to make the decisions themselves and to do so quickly and resolutely while women seek to cooperate and find understanding. This once again confirms the scientific insights on the existence of differences in male and female leadership.

Summing up the research results shows that when speaking in general without highlighting the gender differences, a successful personal career on an individual level could only be ensured by a combination of the elements of the both competence groups by not

distinguishing either of the competence groups or their separate elements. In this case the opinion of the respondents on the importance of the leadership competence elements may be influenced by changes in the contemporary environment. It is natural that new requirements are set for competencies capable of ensuring a successful individual career during a given period. In terms of the manifestation of gender differences it was determined that the beliefs of females and males on the key aspects of leadership and competence importance had both similarities and differences. However, the implementation of male and female leadership itself was different: while women took the lead by relying more heavily on leadership skills (good public speaking skills, suitable self-presentation, and proper image), undertaking the responsibility, showcasing self-confidence and emotive personal attributes (positive thinking and emotional competence), men tended to show their leadership by demonstrating personal attributes (self-confidence and making resolute and bold decisions) and presenting the vision goals in a transparent and comprehensive manner.

This paper is of scientific relevance due to the new insights about male and female leadership expanding the object of this research on leadership. The results received partially confirmed the insights of the scientists stating that different elements of leadership competence are inherent to male and female leadership. The acknowledgment of the existence of similarities and differences in male and female leadership makes the discussions on the separation of male and female leadership as two distinct phenomena purposeful. The results received from the empirical research presuppose the perspective of further scientific discussions in this field and their research on several key aspects:

- masculine and feminine leadership vs male and female leadership.
- manifestation of male and female leadership in terms of personal qualities, leadership styles and leadership competence;
- manifestation of male and female leadership on the organizational and individual level.

Conclusions

The following basic conclusions can be drawn from the scientific insights on male and female leadership, the analysis of approach to leadership as competence and results of the empirical research:

1. The changes in the field of leadership studies conditioned the occurrence of female leadership as a new phenomenon and its separation from male leadership. The leadership competence model of general competence structure consisting of five competence levels was employed in the study of the peculiarities of male and female leadership. The following two qualitatively different competence groups are assigned to the leadership competence: personal leadership attributes and leadership skills. The

personal leadership attributes are related to personal qualities, attitudes, self-perception and values. The leadership skills are associated with the ability to operate purposefully in terms of both striving for personal goals and commanding others to reach common goals.

2. According to the results of the empirical research, the opinions of males and females on the importance of the key leadership competencies had both similarities and differences. Even though it is possible to find matching assessments of leadership competencies by men and women, certain significant differences exist as well. The empirical research confirmed the theoretical statement that male leadership is more oriented towards striving for goals and domination of willpower while female leadership tends to encompass the soft management areas. According to the research results, female leadership is perceived as undertaking the responsibility by demonstrating excellent public speaking skills and self-confidence while male leadership is the showcasing of self-confidence by taking the initiative and presenting the vision and goals in a transparent and attractive manner.
3. It was determined that the implementation of male and female leadership was different itself: while females take the lead by employing

leadership skills (good public speaking skills, suitable self-presentation and proper image), undertaking the responsibility and showcasing self-confidence and emotive personal attributes (positive thinking emotional competence), males tended to demonstrate their leadership by relying on personal attributes (self-confidence and making resolute and bold decisions) and presenting the vision and goals in a transparent and comprehensive manner.

4. The results of the changes in leadership competencies throughout 2010 and 2012 revealed yet higher differences of male and female leadership. For women leadership is rapidly becoming an important and pivotal factor on an individual level while men find the significance of this competence declining. This in turn allows confirming the insights on the increasing limitations of the traditional leadership in the contemporary environment. The research of the shifts in leadership competencies in terms of gender was the one to enable identifying the consequential new facts about male and female leadership and confirming the theoretical statement that female leadership could be perceived as an occurrence of a new phenomenon and its possible separation from male leadership.

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DIFFERENCES OF FEMALE AND MALE LEADERSHIP IN THE CONTEXT OF LEADERSHIP COMPETENCE

Summary

Traditional view of leadership presupposed the peculiarities of gender differences in leadership. The necessity to make urgent decisions or resort to extreme means and the dominance of willpower traits influenced the fact that leadership was deemed to be an exclusively male profession. The contemporary world caused the gender issue in leadership to surface in an entirely new angle which in turn impacted the occurrence of female leadership as a recent phenomenon and its separation from male leadership. The possibilities of traditional leadership were limited by the undergoing global changes and dynamic nature of the environment. The requirements set for organizations to become more flexible, employ teamwork, trust and information exchange became more important than the inflexible organizational structures, competitive individualism, control and secrecy. The advantages of female leaders tend to lie in their soft management skills: team formation, interaction, reaching a consensus and the ability to change. All of these traits ordained the fact that women became superior to the traditional leadership approach. Intense studies of the similarities and differences in male and female leadership were started in scientific literature. When summarizing the contemporary study approaches towards gendered leadership problems, it should be noted that no unanimous opinion exists. Therefore, it is purposeful to expand the scientific researches of this field with new leadership study aspects when looking for fresh male and female leadership facts. The scientific theories formulated to explain the phenomenon of leadership are most often focused on its pivotal role by ensuring the efficiency of separate individuals, teams and organizations and associating it with high positions and responsibilities. During the recent years the scientific studies had certain tendencies further developing both the object of leadership, i.e. the matter which is comprehended as leadership, and its subject, i.e. in terms of what or who the leadership is applied. As leadership is conceived as skills and competence rather than a process, the subject of leadership is also expanded, i.e. leadership competence is depicted for both the supervisor and the employee on the level of organization, and for any person who strives for his/ her personal life and career goals on the individual level. Thus, one of new directions of studying gendered leadership is an attempt to determine the peculiarities of male and female leadership in the terms of leadership competence rather than personal qualities and leadership style. The goal of the paper is to determine the constituents of the male and female leadership competence on the individual level. The leadership competence was incorporated into the general competence structure by employing the principle of leadership competence model in the form of pyramid based on the methodological empirical research of the peculiarities of male and female leadership. The following two qualitatively different competence groups are assigned to the leadership competence: personal leadership attributes and leadership skills. The personal leadership attributes are related to personal qualities, attitudes, self-perception and values. The leadership skills are associated with the ability to operate purposefully in terms of both striving for personal goals and commanding others to reach common goals. The empirical research was carried out in 2010 and 2012 in a group of students studying for the master's degree in business and management. During the research the competence need was not associated with any specific organization but it was focused on the perspective of successful long-term personal career. The first results of this research were announced in 2011; however, they highlighted only the general tendencies of leadership as competence without interpreting the results in terms of gender. This article presents a study of the research results of 2010 in terms of gender as it aims to discern the male and female leadership in the context of leadership competence rather than personal qualities or leadership style. An additional research was carried out two years later with the purpose to verify the tendencies distinguished in 2010 and to identify the possible changes in male and female leadership. Summing up the research results shows that when speaking in general without highlighting the gender differences, a successful personal career on an individual level could only be ensured by a combination of the elements of the both competence groups by not distinguishing either of the competence groups or their separate elements. In this case the opinion of the respondents on the importance of the leadership competence elements may be influenced by changes in the contemporary environment. It is natural that new requirements are set for competencies capable of ensuring a successful individual career during a given period. According to the results of the empirical research, the opinions of males and females on the importance of the key leadership competencies had both similarities and differences. Even though it is possible to find matching assessments of leadership competencies by men and women, certain significant differences exist as well. The empirical research confirmed the theoretical statement that male leadership is more oriented towards striving for goals and domination of willpower while female leadership tends to encompass the soft management areas. According to the research results, female leadership is perceived as undertaking the responsibility by demonstrating excellent public speaking skills and self-confidence while male leadership is the showcasing of self-confidence by taking the initiative and presenting the vision and goals in a transparent and attractive manner. It was determined that the implementation of male and female leadership was different itself: while females take the lead by employing leadership skills (good public speaking skills, suitable self-presentation and proper image), undertaking the responsibility and showcasing self-confidence and emotive personal attributes (positive thinking emotional competence), males tended to demonstrate their leadership by relying on personal attributes (self-confidence and making resolute and bold decisions) and presenting the vision and goals in a transparent and comprehensive manner. The results of the shifts in leadership competencies throughout 2010 and 2012 revealed yet higher differences of male and female leadership. For women leadership is rapidly becoming an important and pivotal factor on an individual level while men find the significance of this competence declining. This in turn allows confirming the insights on the increasing limitations of the traditional leadership in the contemporary environment. The research of the shifts in leadership competencies in terms of gender was the one to enable identifying the consequential new facts about male and female leadership and confirming the theoretical statement that female leadership could be perceived as an occurrence of a new phenomenon and its possible separation from male leadership.

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COMPARATIVE ANALYSIS OF CORPORATE REPUTATION MEASUREMENT METHODS

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Abstract

This paper analyzes corporate reputation measurement methods. Comparative analysis of corporate reputation measurement methods indicates three trends of measurement methods: social expectations, corporate personality and trust. Most common trend of corporate reputation measurement is based on social expectations of stakeholder groups towards the organization. However, research results demonstrate that there is no method of corporate reputation measurement providing comprehensive understanding of corporate reputation measurement indicators. Due to this there is a need to determine corporate reputation measurement indicators in consideration of the most important stakeholder groups.

Keywords: corporate reputation, corporate reputation measurement, corporate reputation measurement methods, rankings.

JEL Classification: M310, M390.

Introduction

Corporate reputation is becoming an important object of discussions between scientists and practitioners. Despite big interest there is a disagreement on the main aspects of corporate reputation. In the scientific literature there is no commonly accepted definition of corporate reputation (Barnett, Jermier, Lafferty, 2006; Chun, 2005; Geppert, Lawrence, 2009; Gotsi, Wilson, 2001; Jarmon, 2009; Šmaizienė, Jucevičius, 2009; Walker, 2010) and there is no conceptual base for the measurement of corporate reputation (Caruana, Chircop, 2000).

There is no doubt of corporate reputation importance to organizations but it is important to determine based on what indicators corporate reputation is measured. In the scientific literature there are a number of corporate reputation measurement methods and models for business organizations (Davies et al., 2003; Dowling, 2004; Fombrun, 1998; Fombrun, Gardberg, Sever, 2000; Helm, 2005; Newell, Goldsmith, 2001; Schwaiger, 2004; van Riel, Fombrun, 2008; Walsh, Beatty, 2007 and others). However, comprehensive set of corporate reputation measurement indicators is not compiled. Scientists indicate that existing corporate reputation measurement methods and models do not fully reflect corporate reputation so none of them can provide comprehensive understanding based on what corporate reputation indicators and at what level corporate reputation is measured.

This paper analyzes corporate reputation measurement methods. After comparative analysis of corporate reputation measurement methods, problems of corporate reputation measurement methods are defined.

The problem of this paper – how corporate reputation is measured. *The object of this paper* is corporate reputation measurement. This *paper aims at*

exploring corporate reputation measurement methods by distinguishing the problems of the methods. To reach the aim of this research the following *objectives* were set:

1. To analyze corporate reputation measurement methods.
2. To determine problems of corporate reputation measurement methods.

Research methods. In order to solve the problem of the research at the theoretical level, analysis, generalization and comparison of scientific literature is conducted. Scientific literature analysis is almost exceptionally based on foreign scientists' research results, as corporate reputation research is a relatively new topic in the Lithuanian academic literature.

Corporate reputation measurement methods

Increasing interest in corporate reputation measurement between scientists, media and practitioners conditioned the creation and usage of many different corporate reputation measurement methods. Existing corporate reputation measurement methods are not always considered as reliable and fully reflecting the essence of corporate reputation. N.A. Gardberg, C.J. Fombrun (2002) indicates that scientists and practitioners can't claim that their corporate reputation measurement method is valid on the international level. N. Nguyen, G. LeBlanc (2001) points out that agreement on valid scales of corporate reputation measurement is not made between scientists. For these reasons, it is suggested to use direct corporate reputation measurement methods. R. Chun (2005) classifies corporate reputation measurement methods to rankings, brand equity scales, image measurement, identity measurement and multiple stakeholder groups corporate reputation measurement methods. D. Bromley (2002) identifies 4 views to corporate reputation measurement: leagues, tables,

reputation quotients, standards and case analyses. These views are criticized because qualitative methods, brand equity scales, image and identity measurement methods are attributed to corporate reputation measurement methods.

After comprehensive scientific literature analysis it is worth to distinguish trends of corporate reputation measurement methods defined by G. Berens, C.B.M. van Riel (2004): social expectations, corporate personality and trust. Methods of social expectations measures expectations of stakeholder groups towards the organizational behavior. Methods of corporate personality measure corporate reputation based on personality traits that are used to explain behavior. In the trend of trust varies prediction of organizational behavior. This trend measures corporate reputation based on specific features or behavior that create trust to stakeholder groups. This grouping of corporate reputation measurement methods is based on the long-term research results so it is considered as most valid. Based on this view analysis of corporate reputation measurement methods is conducted by grouping methods into the trends of social expectations, corporate personality and trust.

Trend of social expectations. In the scientific literature most common view to the measurement of corporate reputation is based on social expectations. This view is based on social expectations of stakeholder groups towards organizational behavior. Corporate reputation measurement methods based on this view are also most common in practice. Most prominent corporate reputation measurement methods in the trend of social expectations are magazine's „Fortune“ rankings of World's most admired companies, Reputation Quotient developed by Reputation Institute (Berens, van Riel, 2004; Helm, 2005; Hillenbrand, Money, 2007) and RepTrak method developed by Reputation Institute. S. Helm (2005) indicates that these methods of corporate reputation measurement are based on the set of indicators that form an index of organizational characteristics perceived by respondents. Most popular methods of corporate reputation measurement only partially depend on the context because corporate reputation is measurement independently of the nature of organizational specifics. Methods only measure opinion of specific stakeholder groups. Rankings published in magazine „Fortune“ measure opinion of executives, directors and finance analysts (Levenson, 2007), while Reputation Quotient and Reptrak methods – customers' opinion (Fombrun, Gardberg, Sever, 2000; van Riel, Fombrun, 2008).

Media rankings. Media rankings that are attributed to the trend of social expectations recently became the most popular method of corporate reputation measurement. Media rankings assess organizations based on specific organizational indicators or evaluations of stakeholder groups. After analysis of rankings published in media, specialized publications and social monitors, C.J. Fombrun (1998) indicates that the number of corporate reputation rankings is growing. C.J. Fombrun (2007) identifies 183 sources that publish rankings of organizations in 38 countries.

It is possible to distinguish such media rankings of business organizations: „Fortune“ World's (America's) most admired companies rankings; „Asian Business“ Asia's most admired companies rankings; „Far Eastern Economic Review“ Review 200; „Financial Times“ World's (Europe's) most respected companies rankings; „Management Today“ Britain's most admired companies rankings; „Manager Magazin“ Best companies rankings; „Wall Street Journal“ rankings; „American Banker“ rankings; „Australian Business“ rankings; „Burson-Marsteller“ rankings; „Corporate Branding LLC“ corporate brand index; „Delahaye Medialink“ corporate reputation index, etc. G.R. Dowling (2004) indicates that well known research organizations also establish their own corporate reputation measurement methods. Agencies of social rankings (i.e. Economic development council) and investment funds (i.e. Kinder, Lydenberg&Domini (KLD)) ranks organizations based on various social activities aspects and contributes to the popularity of corporate reputation rankings (Fombrun, Gardberg, Sever, 2000). In the table below most popular media rankings are presented.

Table 1

Classification of media rankings

| Rankings | Stakeholder groups | Indicators |
|--|---|--|
| „Fortune“ America's most admired companies (from 1984) | Executives, directors, finance analysts | Innovations, management quality, employees talent, financial situation, use of corporate asset, long-term investment value, social responsibility, quality of products and services. |
| „Fortune“ World's most admired companies (from 1997) | Executives, directors, finance analysts | Innovations, management quality, employees talent, financial situation, use of corporate asset, long-term investment value, social responsibility, quality of products and services, int. competitiveness. |
| „Asian Business“ Asia's most admired companies (from 1992) | Executives, members of the board | Admiration, management quality, quality of products and services, contribution to local economy, good employer, future profit, cope with changing economic environment. |
| „Far Eastern Economic Review“ Review 200 (from 1993) | Executives | Prominence, leadership, quality of products and services, innovations of reaction to consumer demands, long-term financial power, imitation of competitors. |
| „Financial Times“ World's (Europe's) most respected companies (from 1999/1994) | Executives | Strategy, customer loyalty and satisfaction, leadership, quality of products and services, profit, corporate culture, changes management, business globalization. |

| | | |
|---|---|---|
| „Management Today“ Britain's most admired companies (from 1991) | Executives, councils of directors, experts-analysts | Management quality, financial power, attraction, development and retention of talents, quality of products and services, equity as a long-term investment, innovations, marketing, community and environment responsibility, use of corporate assets. |
| „Manager Magazin“ Best companies (from 1987) | Executives | Management quality, environmental orientation, innovations, financial stability, communication competence. |

Source: created by author based on C.J. Fombrun (1998), C.J. Fombrun, N.A. Gardberg, J.M. Sever (2000), M. Schwaiger (2004).

Media rankings differ in the use of corporate reputation measurement indicators, but it is possible to distinguish 6 indicators that dominate: financial situation, quality of products, behavior with employees, community responsibility, environmental responsibility, organizational aspects (Fombrun, 1998). Media rankings use a limited number of corporate reputation measurement indicators based on which stakeholder groups evaluate organizations. C.J. Fombrun, N.A. Gardberg, J.M. Sever (2000) indicate that media rankings measure corporate reputation inadequate because they usually use financial and managerial indicators. Due to concentration on financial indicators, C.J. Fombrun (2007) believes that rankings can't be considered as corporate reputation measurement methods, even though they have reasonable influence on corporate reputation. For this reason, C.J. Fombrun (1998) highlights the need to develop a method that would measure corporate reputation more comprehensively and conceptually.

Lithuanian media rankings of business organizations are still in the development phase. In 2007 rankings of Lithuanian most admired companies of 2008 were published for the first time. Organizations were evaluated in 7 categories. Evaluation was based on organizations' data in categories of equity, leadership, management and responsibility. Other 3 categories were measured by research of „TNS Gallup” and „Verslo žinios”. Rankings published in magazine „Verslo žinios” were based on the following indicators:

- Equity: profit, market position, revenue and other financial indicators.
- Leadership: vision, management, strategic decisions, executives' reputation.
- Management: management procedures, relationships with investors and customers, transparency and anti-corruption initiatives, compliance with law.
- Responsibility: investment in employees, society and environment well-being.
- Society's opinion on most admired companies.
- Society's opinion on most attractive employers.
- Executives' opinion on business leadership (Gerbiamausios Lietuvos įmonės, 2008).

N. Klebanskaja, G. Šadauskaitė (2009) criticize rankings of „Verslo žinios” stating that their approach to corporate reputation and selection of measurement

categories is not clear, measurement categories are not tested by pilot research, quality of products and services as a criteria is ignored, criteria of expert selection is not clear, highest weight is given to the opinion of experts, only 32 organizations are evaluated and questionnaires are tested only during the measurement. Due to this it is possible to affirm that this method of corporate reputation measurement was only an attempt to imitate media rankings published in the world.

It is determined that media rankings demonstrate significant limitations in corporate reputation measurement. C.J. Fombrun (1998) criticizes rankings by stating that the majority of rankings are inequitable, generalization of measurement criteria is problematic, different rankings demonstrate diverse measurement results of the same organizations. C.J. Fombrun, N.A. Gardberg, J.M. Sever (2000) indicate that sample of the majority of rankings is limited to big organizations and depend on the revenue. Also too big attention is given to executives, directors and finance analysts; rankings aim to evaluate perceptions of specific stakeholder groups by indicators that are relevant to other stakeholder groups. Despite critics to media rankings, magazine's „Fortune” most admired companies rankings are the most popular of all rankings and most widely cited in the scientific literature so it worth analyzing it more comprehensively.

„Fortune” most admired companies rankings. In 1984 for the first time magazine „Fortune” published America's most admired companies results and it determined the development of corporate reputation rankings' industry (Fombrun, 1998). Until 1997 magazine's „Fortune” America's most admired companies rankings were the only international reputation rankings, however they were limited to America's organizations. In 1997 for the first time „Fortune” published results of 500 world's organizations divided into 21 business type and 13 countries and, named it World's most admired companies (Schwaiger, 2004).

Each year „Fortune” surveys more than 10 thousand executives, directors and finance analysts that evaluate 10 organizations operating in their field based on 8 indicators (Bernasek, 2010; Caruana, Chircop, 2000; Fombrun, 1998; Fombrun, Shanley, 1990; Schwaiger, 2004; Wartick, 2002). Organizations are evaluated based on innovation, management quality, talent of employees, financial situation, use of corporate asset, long-term investment value, social responsibility, quality of products and services (Coldin, 2000; Fombrun, 1998, 2006; Fombrun, Gardberg, Sever, 2000; Fryxell, Wang, 1994; Schwaiger, 2004).

World's most admired companies rankings do not differ substantially from America's most admired companies rankings. The only differences are associated with geographic position and the number of corporate reputation measurement indicators. C.J. Fombrun, N.A. Gardberg, J.M. Sever (2000) state that „Fortune” selects biggest organizations of the world in 21 field based on revenue and eliminates dominating in one country or having less than 4 branches. Organizations in World's most admired companies rankings are evaluated using 9th indicator – international competitiveness (Fortune, 2009).

Magazine's „Fortune“ measurement method is often criticized. It is indicated that despite its popularity and consistency, measurement method is used inappropriately (Fryxell, Wang, 1994). Scientific literature indicates the following limitations of „Fortune“ measurement method: big attention to financial indicators (Caruana, Chircop, 2000; Fombrun, 1998, 2006; Fryxell, Wang, 1994; Schwaiger, 2004; van Riel, Fombrun, 2008); orientation to stakeholder groups interested in financial aspects of organizations (Fombrun, 1998, 2006; van Riel, Fombrun, 2008); lack of theoretical substantiation in the selection of measurement indicators; limited accuracy of measurement scale (van Riel, Fombrun, 2008); inequitable constitution of sample (Bromley, 2002); limitation to big organizations (Bromley, 2002; Fombrun, 1998, 2006); selection of organizations based on revenue; possible agreements between evaluators and organizations; lack of direct respondents' experience on specific indicators; withdrawal of means from the set of ranks (Bromley, 2002); big attention to the opinion of executives, directors and analysts (Bromley, 2002; Fryxell, Wang, 1994); correlation of indicators (Schwaiger, 2004).

Reputation Quotient method. In 1999 Reputation institute created Reputation Quotient method based on which corporate reputation of best known world's organizations was measured (Reputation Institute, 2010b). M. Schwaiger (2004), S.L. Wartick (2002) consider Reputation Quotient as an advanced and reliable corporate reputation measurement method because corporate reputation is measured based on society's opinion which is constituted of customers, employees and other stakeholder groups. However, research conducted by Reputation institute indicates that Reputation Quotient exceptionally measures customers' opinion.

Reputation Quotient method measures corporate reputation from the view of stakeholder groups based on a number of factors and indicators that represent different aspects and determine corporate reputation (Fombrun, Gardberg, Sever, 2000). Reputation Quotient method measures corporate reputation by using 20 indicators attributed to 6 factors (Fombrun, 2006; Wartick, 2002). Factors and indicators of corporate reputation measurement used in Reputation Quotient are distinguished in Figure 1.

S. Helm (2005) considers formative view towards corporate reputation as the substantial validity fact of Reputation Quotient. C.B.M. van Riel, C.J. Fombrun (2008) indicates that this method uses 20 corporate reputation measurement indicators so it doesn't have scale limitations. By analyzing relationships between factors, indicators and overall evaluation of corporate reputation it is possible to predict main parameters that form corporate reputation. Reputation Quotient also indicates reliable guidelines for corporate communication (van Riel, Fombrun, 2008). In conclusion it could be denoted that Reputation Quotient comparing to other corporate reputation measurement methods of social expectations trend is much more valid.

In the scientific literature Reputation Quotient is criticized rarely. It is identified that this method has limitations for the use of indicators that are universal. Universality of corporate reputation measurement indicators used in the Reputation Quotient is not clearly substantiated because this method is created on the base of two types organizations.

Creators of this method (Fombrun, Gardberg, Sever, 2000) indicate that Reputation Quotient is a valid, reliable and solid method of corporate reputation measurement.

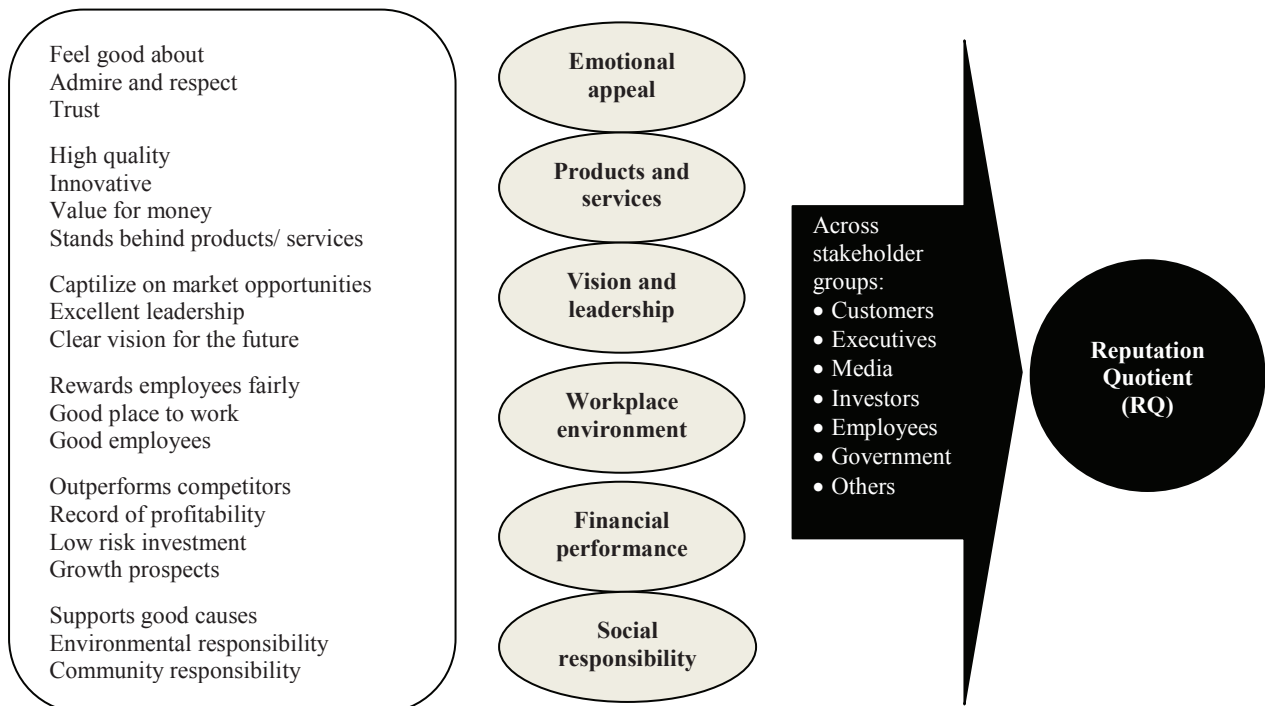


Figure 1. Indicators of Reputation Quotient

Source: C.B.M. van Riel, C.J. Fombrun (2008).

However, the fact that new method of corporate reputation measurement – RepTrak – was created on the base of Reputation Quotient claims on the contrary. For this reason, RepTrak method created on the base of Reputation Quotient is considered as an advanced method of corporate reputation measurement.

RepTrak method. Recently RepTrak method became most acknowledged and most widely used method of corporate reputation measurement that helps to measure and compare corporate reputation. RepTrak method of corporate reputation measurement is created by Reputation institute and replaced Reputation Quotient in 2006. C.B.M. van Riel, C.J. Fombrun (2008) indicates that RepTrak method is the first standardized and complex method of corporate reputation measurement that is used at the international level for opinion measurement of various stakeholder groups. D. Vivader-Cohen (2007) states that RepTrak method was recently used by the magazine „Forbes” for annual World’s most reputable companies rankings. RepTrak method is created in order to provide organizations with standardized framework for the identification of indicators based on with corporate reputation is formed and managed (Reputation Institute, 2009).

RepTrak method is based on Reputation Quotient but during international research limitations of Reputation Quotient were eliminated, list of indicators was supplemented, some indicators were renamed (van Riel, Fombrun, 2008). RepTrak method measures 23 indicators grouped to 7 factors that were substantiated as valid criteria for the determination of stakeholder groups’ support to the organization (Reputation Institute, 2009; Reputation Institute, 2010a). C.J. Fombrun (2006) notes that in order to measure corporate reputation, different number of indicators could be used as it depends on the type of evaluated organization or stakeholder group.

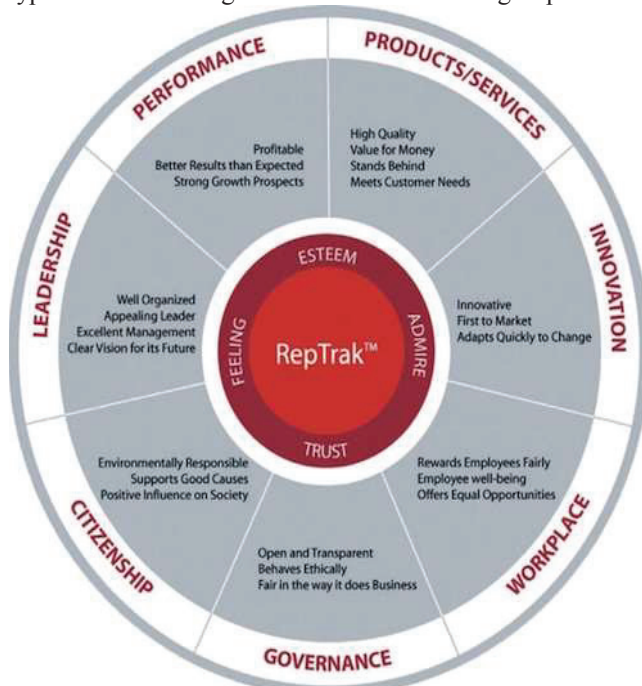


Figure 2. Indicators of RepTrak method

Source: C.B.M. van Riel, C.J. Fombrun (2008).

Exclusive attention in the RepTrak method is given to „RepTrak Pulse” measurement method that measures corporate reputation between customers. „RepTrak Pulse” is based on 4 indicators: esteem, admire, trust and feeling that customers feel to the organization (Reputation Institute, 2009; Reputation Institute, 2010a). Corporate reputation is also measured on the base of indicators that constitute 7 corporate reputation factors. Figure 2 presents complex view of RepTrak method towards measurement of corporate reputation.

As fundamental advantage of RepTrak method is considered the fact that corporate reputation measurement factors (van Riel, Fombrun, 2008) and indicators that constitute them (Reputation Institute, 2009) statistically don’t depend on each other. Another advantage of RepTrak method is that all corporate reputation measurements are comparable between operating fields, countries and in time (Reputation Institute, 2009).

RepTrak method has limitation for the dependence on organizational revenue. It is determined that RepTrak method measures corporate reputation of organizations that have highest revenue in each country. Also, measured organizations must have a number of customers and must be well-known in the society. Organizations are evaluated only in their country of origin (Reputation Institute, 2009). It is determined that RepTrak method might be also limited due to the fact that all factors and indicators of corporate reputation have the same weight.

Corporate reputation measurement methods of service organizations. G. Walsh, S.E. Beatty (2007) created corporate reputation measurement method of service organizations based on Reputation Quotient. This method is verified by 2 stages representative research in banks, retail organizations and fast food restaurants. It is stated that this method is suitable for data collection about corporate reputation of service organizations between customers and evaluation of corporate reputation changes. Overall corporate reputation and separate indicators of corporate reputation can be measured by this method. Measurement method can be also used as a diagnostic tool of service organizations that allows to determine weak and attention requiring areas of corporate reputation. This method is criticized by C. Boshoff (2009) stating that it is limited for its validity, distinguishment of indicators and possible errors of some level. Corporate reputation measurement method created by G. Walsh, S.E. Beatty (2007) distinguishes 5 factors of corporate reputation measurement and 28 indicators (see Table 2).

Another corporate reputation measurement method of service organizations is created by C. Boshoff (2009). Scientist based its method of corporate reputation measurement on G. Walsh, S.E. Beatty (2007) and used different view towards scale development and measurement so it is considered as having higher validity. Scientist states that this method has limitations due to its verification at one type of organizations so the results may be different at other type of organizations. Corporate reputation measurement method of C. Boshoff (2009) distinguishes 5 factors and 17 indicators of corporate reputation measurement (see Table 2).

Table 2

Measurement indicators of service organizations from the view of customers

| Factors | Indicators (Walsh, Beatty, 2007) | Indicators (Boshoff, 2009) |
|---|--|--|
| Customer orientation | Concerned about customer needs, treat customers courteously, concern about customers, treat customers fairly, takes customer rights seriously, care about customers regardless of how much money they spend with them. | Concerned about customer needs, treat customers courteously, concerned about customers. |
| Good employer | Good company to work for, treat its people well, have excellent leadership, has management who pays attention to the needs of its employees, have good employees, maintain high standards in the way it treats people, is well-managed. | Treat its people well, have excellent leadership, management pays attention to the needs of its employees, is well-managed. |
| Reliable and financially strong company | Outperforms competitors, recognizes and takes advantage of market opportunities, has strong prospects for future growth, would be a good investment, makes financially sound decisions, does well financially, has clear vision of its future. | Is a good investment, makes financially sound decisions, has clear vision for its future. |
| Service quality | Offers high quality products and services, is a strong and reliable company, stands behind the services that it offers, develops innovative services. | Stands behind its services, develops innovative services, offers good value for money, recognizes and takes advantage of market opportunities. |
| Social and environmental responsibility | Creates new jobs, reduces its profits to ensure a clean environment, environmentally responsible, supports good causes. | Creates new jobs, reduces its profits to ensure clean environment, environmentally responsible. |

Source: created by author based on C. Boshoff (2009), G. Walsh, S.E. Beatty (2007).

Corporate reputation measurement method from the view of journalists. G.R. Dowling (2004) conducted research of journalists' opinion and distinguished the following factors and indicators of corporate reputation:

- Social accountability: ethical, fair and honest, good community citizen, genuine.
- Corporate capability: strong leadership, quality/reliable products and services, innovative, well managed, strong financial performance, low risk

investment, winning strategy, good growth prospects.

- Media relations: ready access to senior managers, open dealings with journalists, supportive of journalists' needs.
- Market presence: well known, familiar, know what they stand for, leader in its field, powerful presence in the marketplace.
- Personality: exciting, arrogant, interesting, well liked, very Australian, warm and friendly.
- Corporate reputation: believe the company/trustworthy, admired and respected, confident about future actions.

Despite the fact that this method of corporate reputation measurement is constructed by well-known scientists it has limitations. It is determined that this method is not valid for the measurement of corporate reputation because one of factors is corporate reputation that consists of emotional indicators only. Furthermore, this method has personality factor that is not used in any popular corporate reputation measurement method.

Corporate reputation measurement method from the view of customers. S. Helm (2005) developed corporate reputation measurement method that distinguished 10 indicators of corporate reputation measurement from the view of customers: quality of products, environmental responsibility, corporate success, behavior with employees, concern about customers, commitment to charity and social actions, good value for money, financial success, management quality, credibility of advertising. This method is considered as the base for the creation of corporate reputation measurement methods however it has fundamental limitation for its verification at industrial organization. For this reason, it is offered to verify validity of this method at different types of organizations, different organizations from the same type of organizations, different stakeholder groups. S. Helm (2005) believes that this method of corporate reputation measurement can be used as an alternative to Reputation Quotient and other methods of corporate reputation measurement based on social expectations. It could be stated that this method has too little indicators of corporate reputation measurement so it doesn't cover all organizational aspects that are important to stakeholder groups and is too narrow to be a valid method of corporate reputation measurement.

Trend of corporate personality. Recently the concept of corporate personality started being used for the analysis of gaps between perceptions of internal and external stakeholder groups and for determination of corporate reputation's influence to stakeholder groups' favorableness (Berens, van Riel, 2004; Chun, 2005). S. Helm (2005) believes that in this view corporate reputation is measured using personality traits of people that represent indicators attributed to organizations. Comparing to social expectations, personality traits can't be always measured (Berens, van Riel, 2004), so corporate reputation measurement methods of this trend rise doubts and are less popular. G. Davies et al. (2003) attributes brand equity scales to the trend of corporate personality. R. Chun (2005) indicates that best known brand equity scales are created by K. Keller and D.

Aaker. The use of brand equity scales for the measurement of corporate reputation has limitations. R. Chun (2005) points out that most important limitation is associated with not clear conceptual relationship between brand equity and corporate reputation. For this reason brand equity scales can't be used for the measurement of corporate reputation.

G. Davies et al. (2003) developed corporate reputation measurement method that is based on corporate personality and is most widely known corporate reputation measurement method of this trend (see Table 3). R. Chun (2005) points out that this measurement method is verified using large sample of respondents that consisted equally of customers and employees from 15 different types of organizations. Using corporate reputation measurement method created by G. Davies et al. (2003) respondents are asked to imagine that organization became human and evaluate its personality by using human personality traits. G. Davies et al. (2001) point out that process of personality evaluation is qualitative from origin. R. Chun (2005) criticizes qualitative view towards corporate reputation measurement methods stating that it is hard to compare corporate reputation and stakeholder groups' view towards corporate reputation if qualitative measurement methods are used.

Table 3

Indicators used in the measurement method of corporate personality

| Factors | Sub-factors | Indicators |
|---------------|---|---|
| Agreeableness | Warmth Empathy Integrity | Friendly, pleasant, open, straightforward Concerned, reassuring, supportive, agreeable Honest, sincere, trustworthy, socially responsible |
| Enterprise | Modernity Adventure Boldness | Cool, trendy, young Imaginative, up to date, exciting, innovative Extravert, daring |
| Competence | Conscientiousness Drive Technocracy | Reliable, secure, hardworking Ambitious, achievement oriented, leading Technical, corporate |
| Ruthlessness | Egotism Dominance | Arrogant, aggressive, selfish Inward looking, authoritarian, controlling |
| Chic | Elegance Prestige Snobbery | Charming, stylish, elegant Prestigious, exclusive, refined Snobby, elitist |
| Machismo | - | Masculine, tough, rugged |
| Informality | - | Casual, simple, easy going |

Source: created by author based on G. Davies, R. Chun, R.V. da Silva, S. Roper (2003).

Another important limitation of this method is the fact that this method mistakenly interprets corporate reputation. From the view of G. Davies et al. (2003) corporate reputation consists of internal stakeholder groups (employees) and external stakeholder groups (customers) evaluations of an organization. Evaluations of internal stakeholder groups are considered as identity and evaluations of external stakeholder groups – as image. This view causes doubts on the validity of the method as scientific literature indicates that corporate reputation is not a phenomenon that combines corporate identity and image. It can be concluded that this method is not valid because corporate reputation is measured based on personality traits that are not tangible and subjective. Table 3 presents indicators used in the measurement method created by G. Davies et al. (2003).

Trend of trust. According to the opinion of G. Berens, C.B.M. van Riel (2004) the trend of trust is represented by corporate credibility scale created by S.J. Newell, R.E. Goldsmith (2001). S.J. Newell, R.E. Goldsmith (2001) defines corporate credibility as the perceived expertise, reliability, trustworthiness and truthfulness of a company. First two indicators are associated with probability that organization will fulfill its promises and the third – with probability that organization will behave in cooperating behavior despite its promises (Berens, van Riel, 2004). This scale considers organizational expertise and reliability as essential aspects of corporate credibility perceived by customers (Newell, Goldsmith, 2001). G. Berens, C.B.M. van Riel (2004) conclude that corporate associations based on the concept of trust are mainly found in the literature on business-to-business relationships.

Problems of corporate reputation measurement methods

Comparative analysis of corporate reputation measurement methods indicated that corporate reputation measurement methods receive a lot of criticism from scientists. R. Chun (2005) indicates that the majority of corporate reputation measurement methods are criticized for too big attention to financial situation of organizations and measurement based on one dimension. For example, M.E. Goldberg, J. Hartwick (1990) indicate most primitive method of corporate reputation measurement by asking respondents to indicate on the scale what level of reputation organization has. This method is criticized by R. Chun (2005) stating that measurement method based on one dimension does not reflect why one organization has better or worse reputation than the other. Corporate reputation is a multi-dimensional phenomenon so its measurement must be based on indicators of corporate reputation that stakeholder groups use for the evaluation of organizational activities (Fombrun, Gardberg, Sever, 2000). Another important observation is that existing corporate reputation measurement methods concentrate on rankings and the view of one stakeholder group (Chun, 2005).

A. Caruana, S. Chircop (2000) suggest to measure corporate reputation based on views of various stakeholder groups. K. MacMillan et al. (2005) indicate

that consolidation of views of different stakeholder groups does not provide an understanding how organization is evaluated in specific stakeholder group, what indicators are important to specific stakeholder group and how corporate reputation could be improved between various stakeholder groups. Scientists indicate that in such case different indicators of corporate reputation measurement should be used that have different importance to distinct stakeholder groups. For this reason, the use of uniform corporate reputation measurement method for the measurement of distinct stakeholder groups' opinion is problematic.

Conclusions

Analysis of scientific literature indicated that existing corporate reputation measurement methods are not always considered as reliable and fully reflecting the essence of corporate reputation. It was distinguished that corporate reputation measurement methods are attributed to the trends of social expectations, corporate personality and trust. Methods of social expectations measure expectations of stakeholder groups towards organizational behavior. Methods of corporate personality measure corporate reputation based on

personality traits that are used to explain behavior. In the trend of trust varies prediction of organizational behavior. These methods measure corporate reputation based on specific features or behavior that create trust to stakeholder groups.

Most common view to the measurement of corporate reputation is based on social expectations. Media rankings that are attributed to this trend recently became most popular method of corporate reputation measurement. However, it is determined that media rankings demonstrate significant limitations in corporate reputation measurement.

Comparative analysis of corporate reputation measurement methods indicated that all analyzed corporate reputation measurement methods receive a lot of criticism. The majority of corporate reputation measurement methods are criticized for too big attention to financial situation of organizations and measurement based on one dimension. Another important observation is that existing corporate reputation measurement methods concentrate on rankings and the view of one stakeholder group. As a result it is worth noting that there is a need for the development of valid, reliable and solid method of corporate reputation measurement.

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Miglė Šontaitė-Petkevičienė

COMPARATIVE ANALYSIS OF CORPORATE REPUTATION MEASUREMENT METHODS

Summary

Corporate reputation measurement is becoming an important object of discussions between scientists and practitioners. Increasing interest in corporate reputation measurement between scientists, media and practitioners conditioned the creation and usage of many different corporate reputation measurement methods. Despite big interest in corporate reputation measurement there is no conceptual base for the measurement of corporate reputation. In the scientific literature there are a number of corporate reputation measurement methods and models. However, scientists indicate that existing corporate reputation measurement methods and models do not fully reflect corporate reputation so none of them can provide comprehensive understanding of corporate reputation measurement. On the other hand, existing corporate reputation measurement methods are not always considered as reliable and fully reflecting the essence of corporate reputation.

After comprehensive scientific literature analysis trends of corporate reputation measurement methods were distinguished: social expectations, corporate personality and trust. Methods of social expectations measure expectations of stakeholder groups towards the organizational behavior. Methods of corporate personality measure corporate reputation based on personality traits that are used to explain behavior. Trend of trust measures corporate reputation based on specific features or behavior that create trust to stakeholder groups. This grouping of corporate reputation measurement methods is considered as most valid.

In the scientific literature most common view to the measurement of corporate reputation is based on social expectations. Corporate reputation measurement methods based on this view are also most common in practice. Most prominent corporate reputation measurement methods in the trend of social expectations are magazine's „Fortune” rankings of World's most admired companies, Reputation Quotient RepTrak methods developed by Reputation Institute. Most popular methods of corporate reputation measurement only partially depend on the context because corporate reputation is measurement independently of the nature of organizational specifics. Methods only measure opinion of specific stakeholder groups. Rankings published in magazine „Fortune” measure opinion of executives, directors and finance analysts, while Reputation Quotient and Reptrak methods – customers' opinion.

Magazine's „Fortune” World's most admired companies rankings determined the development of corporate reputation rankings' industry. Magazine's „Fortune” measurement method is often criticized. It is indicated that despite its popularity and consistency, measurement method has the following limitations: big attention to financial indicators; orientation to stakeholder groups interested in financial aspects of organizations; lack of theoretical substantiation in the selection of measurement indicators; limited accuracy of measurement scale; inequitable constitution of sample; limitation to big organizations; selection of organizations based on revenue; possible agreements between evaluators and organizations; lack of direct respondents' experience on specific indicators; withdrawal of means from the set of ranks; big attention to the opinion of executives, directors and analysts; correlation of indicators.

Reputation Quotient method measures corporate reputation from the view of stakeholder groups based on a number of factors and indicators that represent different organizational aspects and determine corporate reputation. Reputation Quotient method measures corporate reputation by using 20 indicators attributed to 6 factors. In scientific literature Reputation Quotient is criticized rarely. Reputation Quotient is considered as valid, reliable and solid method of corporate reputation measurement. However, the fact that new method of corporate reputation measurement – RepTrak – was created on the base of Reputation Quotient claims on the contrary.

RepTrak method recently became most acknowledged and most widely used method of corporate reputation measurement that helps to measure and compare corporate reputation. RepTrak method is the first standardized and complex method of corporate reputation measurement that is used at the international level for opinion measurement of various stakeholder groups. As fundamental advantage of RepTrak method is considered the fact that corporate reputation measurement factors and indicators that constitute them statistically don't depend on each other. Another advantage of RepTrak method is that all corporate reputation measurements are comparable between operating fields, countries and in time.

Comparing to social expectations, personality traits can't be always measured, so corporate reputation measurement methods of the trend of corporate personality rise doubts and are less popular. Using corporate reputation measurement methods of corporate personality trend respondents are asked to imagine that organization became human and evaluate its personality by using human personality traits. However, this method mistakenly interprets

corporate reputation. It can be claimed that this method is not valid for corporate reputation measurement because corporate reputation is measured based on personality traits that are not tangible and subjective.

The trend of trust is represented by corporate credibility scale where corporate credibility is the perceived expertise, reliability, trustworthiness and truthfulness of a company. However, corporate associations based on the concept of trust are mainly found in the literature of business-to-business relationships.

Comparative analysis of corporate reputation measurement methods indicated that the majority of corporate reputation measurement methods are criticized for too big attention to financial situation of organizations and measurement based on one dimension. Another important observation is that existing corporate reputation measurement methods concentrate on rankings and the view of one stakeholder group. As a result it is worth noting that there is a need for the development of valid, reliable and solid method of corporate reputation measurement.

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THE IMPACT OF COUNTRY-OF-ORIGIN ON FOOD PRODUCTS CHOICE

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Abstract

This paper analyzes the impact of country-of-origin on food products choice. After the analysis of research results, it was determined that Lithuanian consumers care about country-of-origin while choosing a food product. According to research results, three groups of countries-of-origin were defined: attractive countries-of-origin (Lithuania, Germany), neutral countries-of-origin (France, Italy), unattractive countries-of-origin (Russia, Poland and China). Due to this, there is a need of marketing efforts for every single group of countries-of-origin to be different. Moreover, according to obtained results, the fact that product is made in Lithuania can be used as promotional tool in product marketing.

Keywords: country-of-origin, food products, consumer behavior.

JEL Classification codes: M310, M390, L660.

Introduction

Nowadays, in the situation of increasingly competitive markets and globalization country-of-origin is a very relevant topic. In the contemporary marketplace, country-of-origin has been considered as one of the most significant phenomena impacting evaluations of foreign products. Understanding consumer behavior in relation to the perception of country-of-origin provides fundamentals to strategic decisions in marketing and consumer behavior (Kumara, 2010). By understanding the dynamics of how different consumers respond to country-related information, managers can make more informed choices about the risks and benefits of locating various stages of the value chain in different parts of the world (Brodowsky, Tan, Meilich, 2004).

Large numbers of studies exist on consumers' beliefs and buying behavior with respect to the country-of-origin of a product or service (Godey, Pederzoli, Aiello, et al., 2012). Much research has focused on the effects of country-of-origin. However, consumers, managers and scholars have wrestled with defining just what country-of-origin means (Brodowsky, Tan, Meilich, 2004).

Country-of-origin is one of the most controversial research fields and many studies reach opposite conclusions. Despite the efforts of researchers to validate and relate the numerous approaches to country-of-origin, recent reviews still deplore the lack of conceptual, methodological and theoretical transparency (Godey, Pederzoli, Aiello, et al., 2012). Although, a considerable body of knowledge is now available on this topic, research into country-of-origin effect continues unabated for many reasons. First, the world is an increasingly global marketplace and few businesses are immune to the influence of imported products into their home markets.

Second, businesses around the world actively seek export opportunities for their products and services, and developing countries represent new consumer markets with enhanced purchasing ability (Veale, Quester, 2009).

This research explores how country-of-origin influences consumers' attitudes towards buying foreign versus domestic products and, ranks some of food products' countries-of-origin by customers' preference.

The problem of the research – how country-of-origin impact consumers' choice of food products. **The object of the research** is the impact of country-of-origin on food products choice. Based on the empirical research results this **research aims at** exploring what impact country-of-origin has on consumers' choice of food products. **The objectives of the research** are as follows:

- To discuss theoretical aspects of the importance of country-of-origin.
- To analyze theoretically the impact of country-of-origin on products choice.
- To analyze empirically the impact of country-of-origin on food products choice.

Research methods. In order to solve the problem of the research at the theoretical level, analysis, generalization and comparison of scientific literature is conducted. Empirical research is based on the representative survey method using the questionnaire.

Literature analysis of the importance of country-of-origin

Scientific literature indicates that country-of-origin has significant importance to organizations. Research results published in scientific literature demonstrate that country-of-origin is an important factor that has influence on images of products and

organizations, perceptions of quality and intentions to purchase.

With so few sources of sustainable competitive advantage available in an increasingly competitive marketplace, not considering country-of-origin and product country image effects must be regarded as a failure in strategic thinking that deserves to be reevaluated as a matter of urgency (Baker, Ballington, 2002). Today, consumers are able to purchase products by themselves directly from online companies so they are more likely to consider country-of-origin cues (Lee, Lee, 2007).

Country-of-origin is an important concept in international business research because of its ability to influence purchase behavior and other critical outcomes (Kumara, 2010). The most serious consideration of this phenomenon is in situations where consumers reject a product outright solely on the basis of its country of origin (Brodowsky, Tan, Meilich, 2004).

Country-of-origin refers to information pertaining to where a product is made, and consumers form their evaluation of a product based on their perception of the country-of-origin, thus allowing stereotyping (Zhang, 1997). Within the context of consumer product evaluation, researchers generally define country-of-origin as country-of-manufacture (Laufer, Gillespie, Silvera, 2009). However, consumers also perceive country-of-origin as the country of design and as the country of manufacture/ assembly (Godey, Pederzoli, Aiello, et al., 2012).

Consumers are not only affected by the 'made in' label, but also by other factors such as where the product was designed, manufactured, and assembled (Lee, Lee, 2007). Consumers identify many well-known brands with particular countries, even if the product being evaluated was not manufactured in the firm's country of domicile (Shirin, Kambiz, 2011).

The impact of country-of-origin on consumer perceptions is even more important because production often involves more than one country (Lee, Lee, 2007). The growth of multinational companies and the emergence of hybrid products with components sourced from many countries have made the identification of country-of-origin sometimes very difficult (Shirin, Kambiz, 2011).

While multinational production has made identifying a product's country-of-origin less clear to consumers, at the same time it has given managers more control over choosing a product's country-of-origin. Thus, studying the relative effects of country-of-design and country-of-assembly on consumer attitudes and behavior should help managers assess the consequences of decisions concerning where to design or manufacture their products (Brodowsky, Tan, Meilich, 2004).

Understanding consumer behavior in relation to the perception of country-of-origin provides fundamentals for strategic decisions in marketing and consumer behavior (Kumara, 2010). The importance of the country-of-origin effect lies in its potential use by consumers as an extrinsic cue in making purchasing decisions (Brodowsky, Tan, Meilich, 2004).

As globalization makes the assessment of country-of-origin effect increasingly complex; the risk that managers and international marketers wrongly deploy their efforts or waste resources has become significant (Veale, Quester, 2009). The important role of historical relations and current events is also relevant in the formation of consumers' perceptions and attitudes of antipathy. As such, marketers must consider them in their formulation of marketing strategies (Chand, Tung, 2012). For example, much of the research demonstrated that consumers use stereotype based judgments to unfairly evaluate products from developing countries (Lee, Lee, 2007).

Country-of-origin can be a convenient judgmental criterion in the absence of product knowledge. In other words, it is likely that consumers with high objective knowledge tend to examine specific product attribute information, whereas consumers with high subjective knowledge tend to rely on their past product-related experience and country-of-origin cues in their product evaluation (Lee, Lee, 2007). Previous studies have shown that consumers use country-of-origin as a cognitive shortcut especially when they lack product specific information or when they are not motivated to process available information (Verlegh, Steenkamp, Meulenberg 2005).

Previous studies generally have agreed that consumers with high product knowledge are less likely to rely on country-of-origin cues because their extensive product knowledge helps them search and process external information systematically (Lee, Lee, 2007). When consumers are familiar with a country's products, a summary construct model operates in which consumers infer a country's image from its product information (Shirin, Kambiz, 2011). Consumers with high objective knowledge are less likely to be affected by country-of-origin cues in their product evaluation than those with low objective knowledge (Lee, Lee, 2007).

In contrast, when consumers are not familiar with products of a country, country image acts as a halo that directly affects consumers' beliefs about these products (Shirin, Kambiz, 2011). Consumers with low objective knowledge use country-of-origin as a halo effect for product evaluation (Lee, Lee, 2007).

Country-of-origin affects consumers' information processing and purchase decisions through different mechanisms (Lee, Lee, 2007). Country-of-origin effects are intangible barriers to enter new markets in the form of negative consumer bias while they can be used as a source of competitive advantages in the form of positive consumer bias (Kumara, 2010). Country-of-origin may associate a product with status, authenticity, and exoticness; link a product to rich product-country imagery with sensory, affective, and ritual connotations; and relate a product to a sense of national identity and pride leading to a strong emotional attachment (Verlegh and Steenkamp 1999).

The impact of country-of-origin on products choice

A consensus emerges from the scientific literature, suggesting that country-of-origin often influences

consumer perceptions of product quality and products choice.

The impact of country-of-origin on consumer behavior is considered significant in contemporary marketing literature (Kumara, 2010). Country-of-origin impacts consumer perceptions and behaviors through the image of the product's country-of-origin (Godey, Pederzoli, Aiello, et al., 2012). Country-of-origin is a predictor of consumer attitudes and subsequent choice behavior (Kumara, 2010).

Country-of-origin is a form of image variable that influences consumers' perceptions of the quality of foreign-made products (Kumara, 2010). Country-of-origin influences consumer quality perceptions (Veale, Quester, 2009). Therefore, the country-of-origin image does play a very important role when a consumer makes a purchase decision. Country-of-origin image has a significantly positive influence on consumer purchase decision (Shirin, Kambiz, 2011).

Consumers purchase products based on the image of the product brought about by the country image. The symbolic meaning of the product greatly influences consumers' buying decisions. The perceptions of symbolic meanings of product could be related to the culture of the consumers: consumers in different cultures may attach different symbolic meaning to products based on their perceptions bounded by their cultures (Kumara, 2010).

Country-of-origin, usually communicated by the phrase 'made in (country name)', has a considerable impact on the perceptions of quality of a wide variety of products, although its effect varies across different product categories (Chand, Tung, 2012). Buying and possession of imported products may also signal higher levels of material success for the consumers in emerging markets and help them make a positive impression on others (Sharma 2009).

Previous studies have demonstrated that country-of-origin perceptions form the basis of beliefs that consumers use as part of their product evaluation process, although their importance varies depending on market and product specific circumstances (Veale, Quester, 2009). In general, products from developing countries are perceived to be of lower quality than those from developed markets (Amine, Chao, Arnold, 2005).

Country-of-origin has been found to be more critical when consumers are evaluating high involvement, high status or highly specialized items and less important in the evaluation of low involvement, low priced items (Veale, Quester, 2009). Thus, products made in developing countries face unreasonable psychological barriers in foreign markets (Lee, Lee, 2007). This suggests that country-of-origin may contribute to a status/ego enhancement that makes the product more attractive (Veale, Quester, 2009).

The country-of-origin of a product affects purchase decisions because consumers tend to infer the quality of a country's products from its national image (Wang, Yang 2008). It is clear that country-of-origin information cue is one of the major extrinsic cues, which has an influence on consumer buying decisions of foreign products (Kumara, 2010).

J.G. Knight, D.K. Holdsworth, D. Matker (2007) have shown that micro-level individual attitudes toward other countries and their people do affect consumer perceptions of products from that country, thus indirectly influencing the likelihood of trade and investment at the national level.

Consumers with both low and high product knowledge use country-of-origin in formulating their product evaluation, but with different reasons. Consumers with high product knowledge select products based on country-of-origin cues because country-of-origin has a summary effect. These consumers have learned through past experiences or word-of-mouth communication that products from a specific country tend to have a certain degree of product quality. Consumers with low product knowledge use country-of-origin cues because they are unable to process product attribute information (Lee, Lee, 2007).

The country-of-origin image is naturally affected by the familiarity and availability of the country's product and stereotype of that country (Kumara, 2010). The country-of-origin stereotype effect for consumers may be varied, some based on experience with a product(s) from the country in question, others from personal experience, knowledge regarding the country, political beliefs, ethnocentric tendencies, fear of the unknown etc. (Samiee, 1994).

Thus, many studies show differences in country-of-origin effects on consumers from different countries, based on generic product class, product attributes, product type, consumption context, involvement, and product-country image congruence (Sharma, 2011). Attitudes toward products made in a specific country also vary over time and across product categories, based on consumer perceptions about its degree of marketing sophistication and manufacturing infrastructure (Chrysoschoidis, Krystallis, Perreas, 2007). Country-of-origin effects vary from one country to another, due to differences in economic, sociocultural, political/legal, and other factors (Leonidou, Palihawadana, Talias, 2007).

Research methods and organization

Endeavoring to determine the impact of country-of-origin on food products choice, the questionnaire survey was provided. The questionnaire was composed of two main parts.

Three questions about the impact of country-of-origin on consumers' food products choice in general were provided in the first part. These questions were intended to determine general impact of "Made in ..." feature of a product, starting with possibility to choose between Lithuanian and foreign production. In the third question, seven countries were chosen for respondents' evaluation: Lithuania, Russia, China, France, Germany, Poland and Italy. Particularly, Lithuania was chosen achieving to prove an ethnocentrism (or a lack of it) of consumers; Germany and Poland were chosen from the list of Statistics Lithuania (2013) as main European Union's importers to Lithuania; Italy and France were chosen randomly from the list of European Union countries importing to Lithuania; Russia was chosen as

the main importer to Lithuania from the list of Commonwealth of Independent States. China was chosen as a huggest importer from the list of “other countries” importing to Lithuania. Respondents were asked to rank their priorities for food products made of these countries.

The second part of the questionnaire was socio-demographic. Respondents were asked to indicate their gender, age, income (for one family member), number of family members, occupation, and education.

The research was conducted on January-March, 2013; 1262 respondents participated in the survey. Main demographic characteristics of a sample are provided in Table 1 below.

Table 1

Main characteristics of the sample

| Age | Gender | | Total |
|--------------|------------|------------|-------------|
| | Male | Female | |
| 18-25 | 155 | 274 | 429 |
| 26-35 | 155 | 190 | 345 |
| 36-45 | 66 | 171 | 237 |
| 46-55 | 44 | 131 | 175 |
| 56-65 | 21 | 41 | 62 |
| >66 | 7 | 7 | 14 |
| Total | 448 | 814 | 1262 |

Analyzing income distribution, average respondent's income was found to be 1500-2000 Litass per person per month; average household size – 3 person.

Research results

The first question in the questionnaire aimed to determine, if respondents' consider country-of-origin while choosing a product. According to the results obtained, even 50.2 percent of respondents' always consider country-of-origin while choosing a product; 40.7 percent of respondents' consider it 'sometimes', while only 9 percent indicated that they don't (see Figure 1). Moreover, weak correlation was found between the consideration of country-of-origin and respondent's age; Pearson's R = 0.238 at 0.01 level.

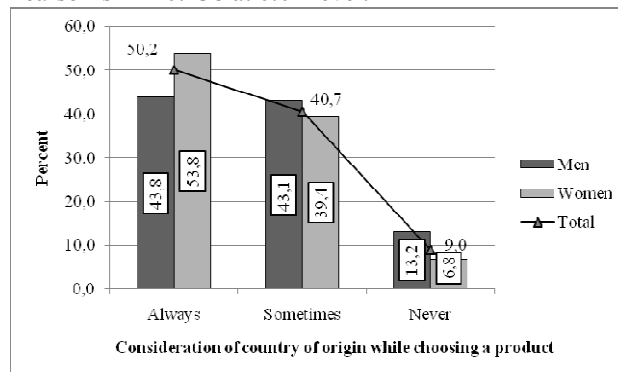


Figure 1. Consideration of country-of-origin while choosing a product, N = 1262

Research results indicate that women are slightly more concerned about country-of-origin while choosing a

product (see Figure 1); however, the difference is not very significant.

Accordingly, it can be stated that country-of-origin can be considered as an important impact factor, determining product's success in the market. Even 91 percent of respondents' indicated its importance in product choice.

Therefore, the importance of country-of-origin while choosing a product does not indicate which countries are more or less attractive or appealing for consumers. Moreover, the first question did not indicate the valuation of Lithuania as country of product origin. Therefore, the second question in the questionnaire was intended to highlight respondents' preferences for products made in Lithuania. Research results are provided in Figure 2.

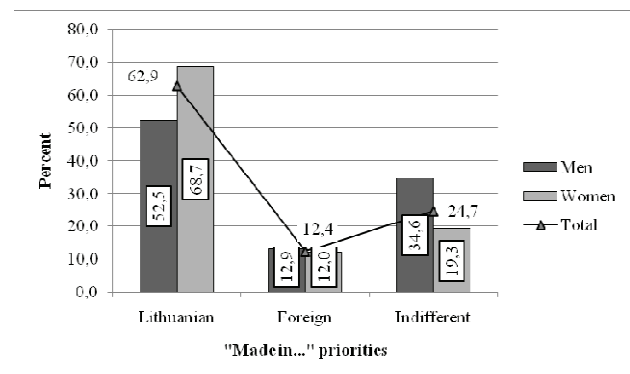


Figure 2. Priorities for country-of-origin while choosing a product, N = 1262

According to research results, in case of situation when faced with choice of similar products made in different countries, even 62.9 percent of respondents choose Lithuanian production (see Figure 2). 24.7 percent of respondents indicated, that they do not see a difference between Lithuanian and foreign production. The assumption can be made here, that these respondents have their favorite country-of-origin, which is not Lithuania or make their decisions based on other factors, such as price, taste or promotions.

Nevertheless, it is important to mention that even 12.4 percent of respondents indicated foreign production as a basis for their choice priority. Hence, Lithuanian manufacturers can consider them as a market growth opportunity, strengthening their marketing efforts for promotion of Lithuanian products image.

Other important research result is that women are more willing to purchase Lithuanian production – even 68.7 of women-respondents indicated “Made in Lithuania” as their product choice priority. Accordingly, it can be stated that this segment can be highly affected by advertising. Lithuanian food producers have to highlight Lithuanian origin in their promotion and advertising campaigns.

In the third question of the questionnaire, respondents had to rank seven countries: Lithuania, Russia, China, France, Germany, Poland and Italy, considering their attractiveness as food producers.

As it can be seen in Figure 3, Lithuania was ranked as the most attractive food producer for

respondents; even 76.1 percent of respondents have ranked Lithuania as their first priority, average ranking was very high – 1.62 points out of 7 (where 1 meant ‘very attractive’ and 7 – ‘very unattractive’).

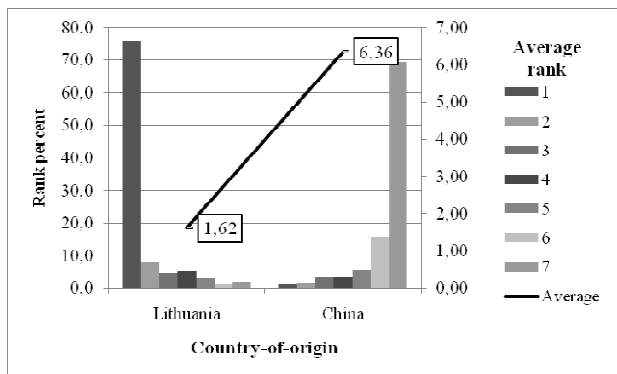


Figure 3. Rankings of country-of-origin attractiveness as food producers (Lithuania vs. China), N = 1262

At the other peak of respondents’ rankings was found to be China. Even 69.5 percent of respondents considered China as the least attractive food producer; average ranking – 6.36 points (out of 7). Therefore, it can be stated that despite the popularity of Chinese restaurants, faced with Chinese production in stores customers rather choose other country-of-origin’s production.

As a second priority country-of-origin was found to be Germany. Even 14.6 percent of respondents’ ranked food made in Germany as most attractive for them; 33.4 percent marked Germany as their second, and 24.6 percent – as third priority. Such respondents’ priorities can be explained by some cultural aspects and stereotypes. German production (not only food) was always considered as high-quality, precise, very standardised and prestigious. Such stereotypes came to Lithuanian point of views and evaluations a way before Soviet times. It is not surprising that contemporary Lithuanian perception of German products hasn’t changed much.

Considering research results, two other European countries – France and Italy – can be called as neutral countries-of-origin. The two countries (similar to Germany) can be called as having old traditions (much older and deeper than Germany, when taking food production under consideration). However, stereotypic thinking does not attach these countries to quality, rather to absence of standards.

Therefore, France and Italy as countries of food products origin were evaluated neutrally (see Figure 4).

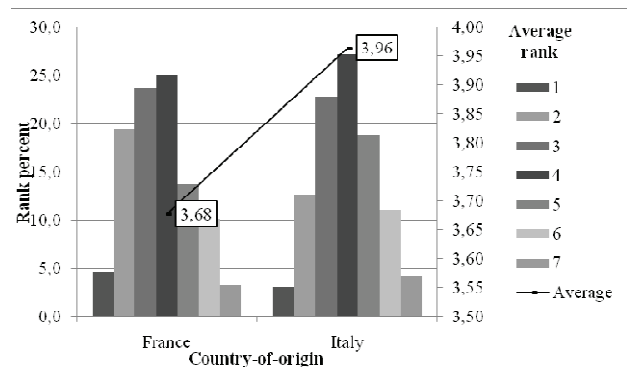


Figure 4. Rankings of country-of-origin attractiveness as food producers (France and Italy), N = 1262

While analyzing respondents’ evaluations of France, it can be seen that 23.7 percent of respondents ranked this country-of-origin as third and 25 percent of respondents – as fourth priority. Only 4.6 percent of respondents’ ranked food made in France as their first choice; similarly, only 3.3 percent of respondents stated that France is the most unattractive country of food origin. As provided in Figure 4, overall respondents’ evaluation of France as a country-of-origin attractiveness mean was 3.68.

Similar respondents’ evaluations were obtained about Italy. 22.8 percent of respondents’ ranked Italy as third and 27.2 as fourth food country-of-origin for their choice. Italy as food country-of-origin was chosen as a first priority by 3.1 percent of respondents; and 4.3 percent of respondents indicated Italy as most unattractive food product provider. Overall respondents’ evaluation of Italy as a country-of-origin attractiveness mean was 3.96 (see Figure 4).

Two remaining countries-of-origin which were given for respondents’ evaluation were Russia and Poland (see Figure 5).

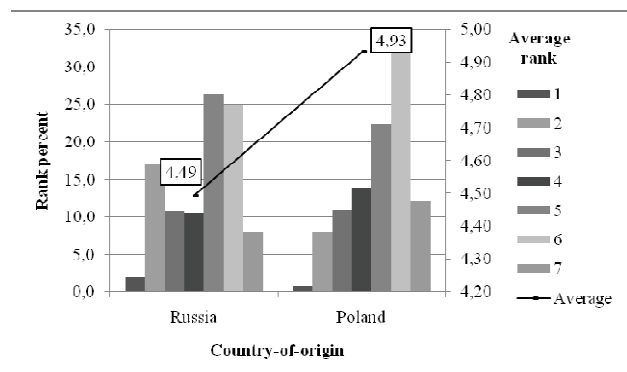


Figure 5. Rankings of country-of-origin attractiveness as food producers (Russia and Poland), N = 1262

According to the results obtained, it can be stated that Russia and Poland as food producers have negative image to Lithuanian consumers.

Research results highlight discrepancy between rankings of Russia as a country-of-origin. Even 17.1 percent of respondents ranked Russia as a country-of-origin of second priority, while choosing a food product. Such results highlight a market segment which is contented with food products made in Russia. These

results should be considered as important and further research about factors of attractiveness of Russia as a country-of-origin can be provided.

Despite almost 20 percent of advanced evaluations (2.1 percent of respondents ranked Russia as the first priority food producer), 26.4 percent of respondents ranked this country-of-origin as the fifth and 24.9 – as sixth priority, while choosing a food product. Moreover, 8.2 percent of respondents ranked Russia as very unattractive country-of-origin for food products (see Figure 5). Overall respondents' evaluation of Russia as a country-of-origin attractiveness mean was 4.49, which is far below average.

The other unattractive country-of-origin was found to be Poland. The evaluations of Poland's as country's-of-origin attractiveness were not such controversial as Russia's. While ranking Poland's attractiveness, 22.3 percent of respondents ranked this country-of-origin as their fifth, and even 31.8 – as sixth priority of food choice. Moreover, 12.2 percent of respondents indicated Poland as the least attractive food producing country. Average respondents' ranking was 4.93 points (out of 7). Such research results contradict existing market situation. However, such contradictions can be explained by low consumer involvement, lack of information or excess of promotions.

Discussion and further implications

After the analysis of research results, it can be stated that Lithuanian consumers care about country-of-origin while choosing a food product. Moreover, according to obtained results, the fact that product is made in Lithuania can be used as promotional tool in product marketing.

Analyzing country's attractiveness for Lithuanian consumers in terms of country-of-origin of food products, the following ranking can be provided (see Table 2).

Table 2

Attractiveness of country-of-origin for Lithuanian food consumers

| Country | Average ranking | Final rank |
|-----------|-----------------|------------|
| Lithuania | 1.62 | 1 |
| Germany | 2.84 | 2 |
| France | 3.68 | 3 |
| Italy | 3.96 | 4 |
| Russia | 4.49 | 5 |
| Poland | 4.93 | 6 |
| China | 6.36 | 7 |

According to research results, three groups of countries-of-origin can be defined: *attractive* countries-of-origin (Lithuania, Germany), *neutral* countries-of-origin (France, Italy), *unattractive* countries-of-origin (Russia, Poland and China). Marketing efforts for every single group of countries-of-origin have to be different. For example, if country belongs to a group of 'attractive' countries-of-origin, country-of-origin can be highlighted in advertising, or product package, etc. Producers from 'neutral' countries can try to raise attractiveness of country-of-origin by telling histories, linking products to country's heroes, etc. However, if food product's

country-of-origin belongs to 'unattractive' group, more drastic and offensive marketing methods have to be used. The negative impact of country-of-origin can be neutralized by lowering prices, offering promotions, which will obscure unacceptable image.

The analysis of research results revealed interesting respondents' evaluations of Russia as country-of-origin. Obtained controversial evaluations highlight the existence of Russia-friendly market segment (about 20 percent of market). The existence of such segment opens a huge possibility for Russian food producers in Lithuanian market. Ambiguous evaluations of Russia as a country-of-origin substantiate the necessity for further research.

Other important research results highlight that women are more concerned about country-of-origin while choosing food products. Therefore, it can be stated that main food producers' advertising efforts have to address women through their emotions, sentiments and other soft advertising appeals.

Considering further research, it would be interesting to analyze the effect of country-of-origin in different food categories, and different product categories, as well. Moreover, other countries can be included into the research. Based on obtained results, country-of-origin attractiveness index can be elaborated and calculated for every country.

Conclusions

Achieving to explore what impact country-of-origin has on consumers' choice of food products, theoretical and practical researches were provided. Literature analysis revealed that country-of-origin was an important factor that had influence on images of products and organizations, perceptions of quality and intentions to purchase. Moreover, not considering country-of-origin and product country image effects can bring company to a failure in strategic thinking that deserves to be reevaluated as a matter of urgency.

The existence of differences in country-of-origin effects on consumers from different countries, based on generic product class, product attributes, product type, consumption context, involvement, and product-country image congruence substantiated the necessity of the empirical research. After the analysis of research results, it can be stated that Lithuanian consumers care about country-of-origin while choosing a food product.

According to empirical results, three groups of countries-of-origin of food products were defined: *attractive* countries-of-origin (Lithuania, Germany), *neutral* countries-of-origin (France, Italy), *unattractive* countries-of-origin (Russia, Poland and China). Marketing efforts for every single group of countries-of-origin have to be different. Moreover, women were found to be more concerned about country-of-origin while choosing food products. Therefore, it can be stated that main food producers' advertising efforts have to address women through their emotions, sentiments and other soft advertising appeals.

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Miglė Šontaitė-Petkevičienė, Lina Pilelienė

THE IMPACT OF COUNTRY-OF-ORIGIN ON FOOD PRODUCTS CHOICE

Summary

Nowadays, in the situation of increasingly competitive markets and globalization country-of-origin is a very relevant topic. In the contemporary marketplace, country-of-origin has been considered as one of the most significant phenomena impacting evaluations of foreign products. Understanding consumer behavior in relation to the perception of country-of-origin provides fundamentals to strategic decisions in marketing and consumer behavior (Kumara, 2010). By understanding the dynamics of how different consumers respond to country-related information, managers can make more informed choices about the risks and benefits of locating various stages of the value chain in different parts of the world (Brodowsky, Tan, Meilich, 2004).

Large numbers of studies exist on consumers' beliefs and buying behavior with respect to the country-of-origin of a product or service (Godey, Pederzoli, Aiello, et al., 2012). Much research has focused on the effects of country-of-origin. However, consumers, managers and scholars have wrestled with defining just what country-of-origin means (Brodowsky, Tan, Meilich, 2004).

Country-of-origin is one of the most controversial research fields and many studies reach opposite conclusions. Despite the efforts of researchers to validate and relate the numerous approaches to country-of-origin, recent reviews still deplore the lack of conceptual, methodological and theoretical transparency (Godey, Pederzoli, Aiello, et al., 2012). Although, a considerable body of knowledge is now available on this topic, research into country-of-origin effect continues unabated for many reasons. First, the world is an increasingly global marketplace and few businesses are immune to the influence of imported products into their home markets. Second, businesses around the world actively seek export opportunities for their products and services, and developing countries represent new consumer markets with enhanced purchasing ability (Veale, Quester, 2009).

This research explores how country-of-origin influences consumers' attitudes towards buying foreign versus domestic products and, ranks some of food products' countries-of-origin by customers' preference.

The problem of the research – how country-of-origin impact consumers' choice of food products. **The object of the research** is the impact of country-of-origin on food products choice. Based on the empirical research results this **research aims at** exploring what impact country-of-origin has on consumers' choice of food products. **The objectives of the research** are as follows:

- To discuss theoretical aspects of the importance of country-of-origin.
- To analyze theoretically the impact of country-of-origin on products choice.
- To analyze empirically the impact of country-of-origin on food products choice.

Research methods. In order to solve the problem of the research at the theoretical level, analysis, generalization and comparison of scientific literature is conducted. Empirical research is based on the representative survey method using the questionnaire.

Achieving to explore what impact country-of-origin has on consumers' choice of food products, theoretical and practical researches were provided. Literature analysis revealed that country-of-origin was an important factor that had influence on images of products and organizations, perceptions of quality and intentions to purchase. Moreover, not considering country-of-origin and product country image effects can bring company to a failure in strategic thinking that deserves to be reevaluated as a matter of urgency.

The existence of differences in country-of-origin effects on consumers from different countries, based on generic product class, product attributes, product type, consumption context, involvement, and product-country image congruence substantiated the necessity of the empirical research. After the analysis of research results, it can be stated that Lithuanian consumers care about country-of-origin while choosing a food product.

According to research results, three groups of countries-of-origin were defined: *attractive* countries-of-origin (Lithuania, Germany), *neutral* countries-of-origin (France, Italy), *unattractive* countries-of-origin (Russia, Poland and China). Marketing efforts for every single group of countries-of-origin have to be different. For example, if country belongs to a group of 'attractive' countries-of-origin, country-of-origin can be highlighted in advertising, or product package, etc. Producers from 'neutral' countries can try to raise attractiveness of country-of-origin by telling histories, linking products to country's heroes, etc. However, if food product's country-of-origin belongs to 'unattractive' group, more drastic and offensive marketing methods have to be used. The negative impact of country-of-origin can be neutralized by lowering prices, offering promotions, which could obscure unacceptable image.

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PERSPECTIVES FOR NEW FRAMEWORK OF TEACHING – LEARNING FOREIGN LANGUAGE WITH MOODLE

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Abstract

Rapid advances in technology and computer aided teaching have offered new opportunities and opened new horizons for teaching and learning. In 2012 the distance learning programme of Fundamentals of Business English for extramural students was launched at Aleksandras Stulginskis University. Moodle-based e-Learning environment, an innovative way of teaching/learning in a tertiary education system enforced the application of new tools, new methodologies, approaches and framework to promote active foreign language teaching and learning. However, a technology itself does not promote learning or teaching; its effectiveness depends on the teachers' and learners' active participation and involvement. Implementing innovative tools of teaching/learning has called for a very close communication between the teacher and learner. Accordingly, the research on student feedback based upon the questionnaire has been undertaken to investigate the students approach to the Moodle-based e-learning and the impact technology has on the student attitudes towards learning foreign language through the computer. The article focuses on practical approach for the improvement of foreign language course design, outlines the advantages and disadvantages of Moodle assignments, activities and resources.

Keywords: Teaching-Learning Foreign Language, Moodle, e-learning, 2012-2013.

JEL Classification: I20, I21, I29.

Introduction

The essence of teaching remains unchanged for centuries, since its primary goal to convey knowledge or information hasn't lost its importance today. However, methods, approaches and tools used went through overwhelming innovations and technologies starting from introduction of writing, books, computers, and the Internet.

In recent years higher education institutions worldwide are feeling pressure to be more productive, relevant and flexible. Employers are expecting not only skilled graduates but also creative employees able to suggest cost-effective ideas and solutions for dealing with nowadays challenges. In response, educators are creating new courses based on new methods of teaching, exploit new technologies, and upgrade the facilities to meet current demands. Educational institutions are reviewing their current application of e-learning in the light of changing requirements. Many distance learning online courses are developed to satisfy the educational demand for innovation, improvement of the communication and interaction processes in the classroom. This type of teaching and learning offers a combination of activities driven by new learning objectives and aspirations. "E-learning exploits interactive technologies and communication systems to improve the learning experience. It has the potential to transform the way we teach and learn across the board. It can raise standards, and widen participation in lifelong learning. It cannot replace teachers and lecturers, but alongside existing methods it can enhance the quality and reach of their

teaching" (Department for Education and Skills (DfES), 2003).

In 2009 the General Manager from Blackboard company Martin Knott familiarised ASU academic community with technical and educational aspects of e-learning through Moodle.

Using Virtual Learning Environments (VLEs) or Learning Management System (LMS) poses important educational issues for University, nevertheless soon in 2011, Aleksandras Stulginskis University adopted the strategy to promote technology based e-learning establishing Moodle as universal, dynamic and adaptable e-learning environment that educators can use, modify and expand empowering and engaging learners with future-orientated skills and knowledge.

Foreign Language Department launched first Moodle classes in autumn, 2012. The development of new teaching system claimed for tremendous commitment of time and resources since a teacher task is not only to customize the content, but also to struggle and try to discover how best to apply the complex technology and foster the interaction among the students, teacher, content and technology. The collaboration with technology is vital for both teachers and students in order to create a "community" that nurtures, encourages, and supports the learning process.

As e-learning establishes new learning relationship it becomes a challenge for many teachers and students, who felt comfortable using conventional learning and teaching approaches. A set of problems arises for teachers adopting Moodle since it is entirely collaborative and depends on user ability to read-write-

edit-publish through an interactive process. To engage learners in “networked collaborative e-learning” which focuses on “learners, working as a learning community, sharing resources, knowledge, experience and responsibility through reciprocal collaborative learning” requires changing one’s teaching approaches (McConnell, 2006, p. 11). Positive attitude is an essential element establishing collaborative learning and interactive dialogue between learners and teachers (McConnell, 2006).

Thus, the investigation and understanding of students’ feedback, response and reaction to the new way of teaching/learning is indispensable for establishing collaborative learning community and effective interaction of student, teacher, content and technology.

Lithuanian scientists Rutkauskienė, Targamadžė, Pociūtė, Patašienė, Mušankovienė, Hopenienė, Strička, Zuzevičiūtė started analysing different aspects of e-learning only in the past 10 years. Much has been written on this issue, but no comprehensive research has been carried out on application of Moodle for language teaching/learning at tertiary level in Lithuania. As we can assume, this field is completely under-researched and needs deeper investigation. Therefore our study into perspectives of teaching/learning language is beneficial and helpful for teachers planning to integrate foreign language course and improve foreign language proficiency at university exploiting Moodle as an e-learning platform.

The research aim is to foresee theoretical and practical implications allowing the advancement of foreign language teaching/learning through Moodle.

The research object is the process of foreign language teaching and learning through Moodle at the level of Bachelor studies.

The research objectives: to analyse scientific literature related to e-learning and teaching through Moodle and present the results; to create an effective tool for obtaining students feedback; to analyse the results and find out most vulnerable aspects of language learning through Moodle; to draw the conclusions and provide recommendations for customizing the appropriate pedagogical approach and maximizing teaching/learning potential through Moodle.

The research methods involve a review and analysis of related scientific literature; survey-questionnaire method to get feedback from students, studying foreign language through Moodle; statistical and comparative analysis; discussion of the obtained findings and empirical research results.

Theoretical Framework

In order to set the analysis of e-learning in the context of curriculum design it is first necessary to start from the nature and methods of e-learning.

It is not obviously known when the term e-learning originated, although it is regarded that it was firstly used during the 1980’s. The term itself is quite confusing as to define e-learning a great many of terms have been used synonymously. The terms e-learning, online learning, Internet learning, distributed learning, networked learning, tele-learning, virtual learning, computer-assisted

learning, web-based learning, and distance learning are used interchangeably, so in most cases the exact characteristics of the term remain unknown. However, authors agree that all of the definitions of the term refer to the learner studying in a distance, using technology to access materials, interacting with the educator and other learners to get support (Ally, 2008).

The matter of the importance of technologies in e-learning is under discussion. Some scientists claim that although technologies are an integral part of e-learning, they do not play the major role in students’ learning achievements; however, the contents and instructional strategies of the learning material are of the highest importance and have the biggest influence on students (Schramm, 1977; Bonk and Reynolds, 1997; Clark, 2001). On the other hand, Kozma (2001) emphasizes the significance of specific computer attribute enabling learners’ interaction with the real-life simulations. Ring and Mathieux (2002) claim that such learning should be characterized by high authenticity, high interactivity and high collaboration.

The UK’s experts on digital technologies for education and research present the following definition of e-learning as “learning facilitated and supported through the use of information and communications technology”. It can cover a spectrum of activities from the use of technology to support learning as part of a ‘blended’ approach (a combination of traditional and e-learning approaches), to learning that is delivered entirely online. Whatever the technology, however, learning is the vital element” (The UK Joint Information Systems Committee, 2013).

The emergence of Learning Management System (LMS) has reinforced a new teaching model focused on learning, which suggests more independent, creative, participatory and cooperative educational processes. Nowadays a number of LMS are available on the market. Some of them such as Blackboard and WebCT are considered to be proprietary software, while others like Joomla, Sakai, and Moodle are open source software. However, there is no other LMS which is so large and diverse. Since 1999, when it was set up, the Moodle community has grown so much that by August 2013 there are about 86,268 active sites and 7,802,868 courses, which have been registered in 237 countries (Moodle.org: Moodle Statistics).

The word Moodle was originally an acronym for Modular Object-Oriented Dynamic Learning Environment. Moodle users can create their own private website filled with dynamic courses that extend learning, anytime, anywhere. It can be used in many types of environments e.g. education, training or business. Moreover, developers can extend Moodle’s modular construction by creating plugins for specific new functionality (Moodle.org).

Moodle is unique in a way there are different possibilities of its usage. Some teachers use it as a repository of materials; others use it for quizzes. Moodle is also used for a blended learning combining it with face-to-face interaction. Finally, it is possible to use Moodle as an entirely online course.

Language course on Moodle can be organized in various ways depending on such facets as the level and

age of students, learning goals and styles, etc. However, almost every course focuses on the skills of speaking, reading, writing, listening, vocabulary, pronunciation and grammar. There is no single school of thought that can be followed to design online learning course, therefore a combination of theories is used to develop online materials. "What is needed is not a new stand-alone theory for the digital age, but a model that integrates the different theories to guide the design of online learning materials"(Ally, 2008, p.18). Moreover, according to Helen Beetham, there are really no models of e-learning in itself– only enhancements of conventional learning models (as cited in Mayes & Freitas, 2013).

Behaviourism, cognitivism, and constructivism have contributed much in different ways constructing e-learning strategies. Namely, behaviourist theoretical assumptions are followed in teaching facts (what); cognitivist strategies are preferred to teach principles and processes (how); and constructivism plays a great part in teaching the real-life and personal applications and contextual learning. Besides, connectivism is used to guide the development of e- learning since it is a theory of the digital age, where everybody learns and works in a networked environment (Ally, 2008). Siemens Siemens (2004) criticises the above mentioned theories for emphasizing learning inside the learner augmenting that learning can now be distributed outside the learner, within personal learning communities and across social networks by means of networked technologies.

Teaching and learning foreign languages through Moodle is rooted mainly in constructivist and social constructivist approach to education. Hence we have directed a particular interest on constructivist learning theory, famous by such prominent figures as Jean Piaget, John Dewey, Maria Montessori, Władysław Strzemiński, Lev Vygotsky. Constructivist theories claim that learners interpret the information and the world according to their personal reality that they learn by observation, processing, and interpretation (Cooper, 1993; Wilson, 1997). This theory suggests that learners can contribute to the educational experience since they are the centre of the learning, while the educator is just an advisor or facilitator. Students are actively involved in the process of constructing, sharing, dialogue, reflection with others. They are not just a memory storehouse for stocking information, nor can it be conveyed to students just by reading something or listening to someone. Students are regarded to be both teachers and learners at the same time, learning well by expressing something to others, understanding the context of others in a flexible learning environment (Moodle.org: Pedagogy).

Methods. Participants. Procedure

The empirical research was carried out at Aleksandras Stulginkis University in the period of two semesters in 2012-2013. The research involved 52 randomly chosen first year students of extramural studies from the faculties of Economics and Management, Forestry, Agronomy, Water and Land Management, and Engineering. Blended learning was used to teach Fundamentals of Business English in a twelve-week period.

At the end of the second semester the participants of the present study were explained the nature of their participation and asked to complete the questionnaires independently focusing the responses on their experiential perception. The unsigned questionnaire was administered to identify students' attitude, feedback and experience using Moodle and e-learning in general. Students had to express their agreement or disagreement with 7 statements, rate Moodle tools they used and point out the problems they had faced while learning. Statistical analysis of the data was performed and results were presented.

Results and Discussion

Section 1 Innovation

The questionnaire was logically divided into four sections. The aim of the first section was to reveal students' attitude towards innovation, innovative methods of teaching, their e-learning experience in general, the usefulness of Moodle as a tool for language learning and students' expectations related to Moodle-based learning. The second section aimed to identify the students' rating of the benefits Moodle provides, the third one gave insights into drawbacks of e-learning, while the last section focused on the usefulness of Moodle tools.

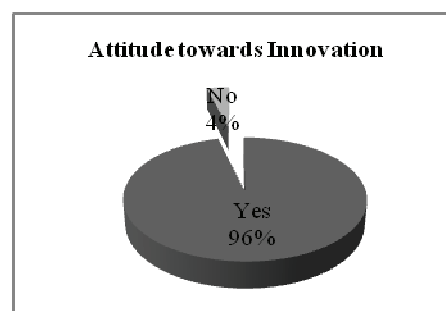


Figure 1.

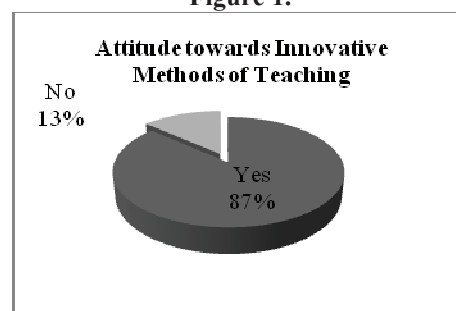


Figure 2.

The first two statements of the questionnaire reveal students' opinions towards innovation and innovative methods of teaching. Findings on Figure 1 clearly underlined high student positivity on innovation in general; since 96% of the respondents are in favour of innovation. As evidenced by Figure 2, 87% of the respondents had positive attitude towards innovative methods of teaching as well, whereas only 13 % had negative perceptions. In fact, students' enthusiasm and interest in innovation correspond with ASU aim of innovating education through technology and ambitions to achieve better results in higher education. An innovative mode of teaching with Moodle serves as a platform to

implement innovative thinking and construction of knowledge giving support to the constructivist point of view about computer as a new construction material for students. The results of this section obviously confirm most students' initial interest and positivity to innovation and Moodle that can serve as a strong motivation for better learning outcome, proving its future potential and promising prospects for e-learning.

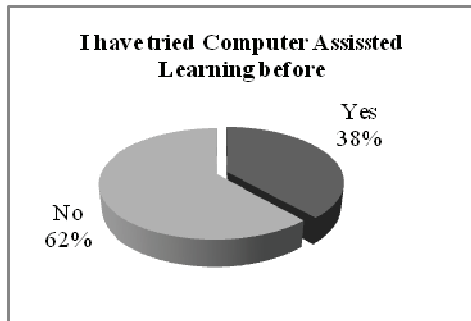


Figure 3.

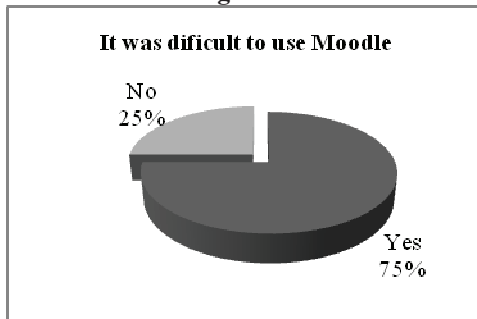


Figure 4.

Figure 2 suggests that 62% of the students, i.e. the major part of the total number of students, practised e-learning before. The rest of the respondents tried e-learning for the first time in their life. Students' experience and familiarity with technology impacts the learning outcomes greatly. Although computers are regarded as an integral part of our educational system, the results prove that e-learning is still a new mode in Lithuania (38% of the students hadn't tried e-learning before).

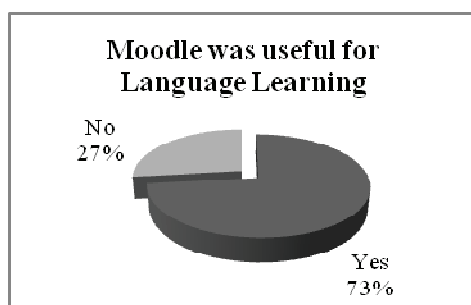


Figure 5.

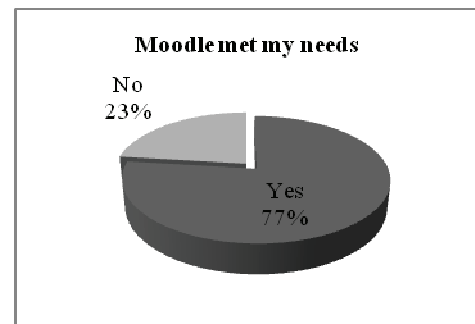


Figure 6.

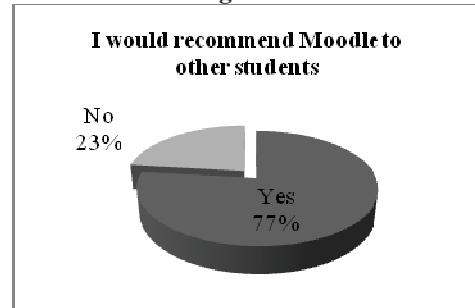


Figure 7.

Research statements: "It was difficult to use Moodle", "Moodle was useful for Language Learning", "Moodle met my needs", and "I would recommend Moodle for language learning" scored very similar results' (Figures 4, 5, 6, 7). Research confirms that almost the same part of the students (25% (Figure 4), 27% (Figure 5), 23% (Figure 6), 23% (Figure 7) expressed negative attitude towards the statements under discussion. This negative attitude can be presumably explained by computer illiteracy. There is a correlation between computer literacy and positivity towards information technology (Downey, Hayes, O'Neill, 2005). Accordingly, the implication is that computer-competency has positive effects on students' acceptance of e-learning systems. In the light of our experiential study, we can state that students with strong computer literacy are likely to have more positive attitude towards e-learning environment. Furthermore, a number of scientists stated that teachers' attitude towards computer technologies is not of less importance than students' acceptance of e-learning (Lloyd & Lloyd, 1985; Griffin, 1985; Kluever, Lam, Hoffman, Green, & Swearingen, 1994; Yuen & Ma, 2001).

Section 2- Advantages

In higher education, Moodle's reputation is valued for its freedom, peer review, and knowledge sharing. It helps educators to create an effective collaborative online-learning community using sound pedagogical principles for a very low cost. Moodle is easy and quick to install, it can accommodate a large user base. Moodle updates are common, the development community is very supportive, and its universal use provides reliable learning solutions. Moodle users describe a variety of advantages and disadvantages for using this LMS, whereas the respondents of our study were posed six possible benefits of Moodle. Having tried an e-learning, at the end of the

semester students were able to evaluate the advantages and benefits that Moodle platform provides.

Students' rating (5) of the benefits is presented in descending order:

1. Availability of course elements: 59%
2. Flexibility in time and space: 57%
3. Cost effectiveness: 55%
4. Transparent and fair evaluation: 55%
5. Consistency of learning: 44%
6. Collaborative environment: student-student and teacher-student: 36%.

Findings suggest that four items that gained the highest number of positive votes were: Availability of course elements 59%, Flexibility in time and space 57%, Cost effectiveness 55% and Transparent and fair evaluation 55%. These are aligned with passive application of Moodle, pragmatic and practical approach.

However, Moodle's interactive benefits gained the lowest number of students votes (Collaborative

environment: student-student and teacher-student: 36%). It is possible that the respondents hadn't perceived the potential benefit of Moodle's interactivity. Either way, according to Constructivist On-Line Learning Environment Survey (COLLES), developed by Taylor & Maor (2000) for university teachers and researchers, who are interested in the educational reform of university teaching such Moodle advantages as Interactivity (To what extent do students engage on-line in rich educative dialogue?), Tutor Support (How well do tutors enable students to participate in on-line learning?), and Peer Support (Is sensitive and encouraging support provided on-line by fellow students?) are of greatest importance. Our aim to make full use of its powerful interactive and collaborative features and design them into effective learning tools coincides with the constructivist principles.

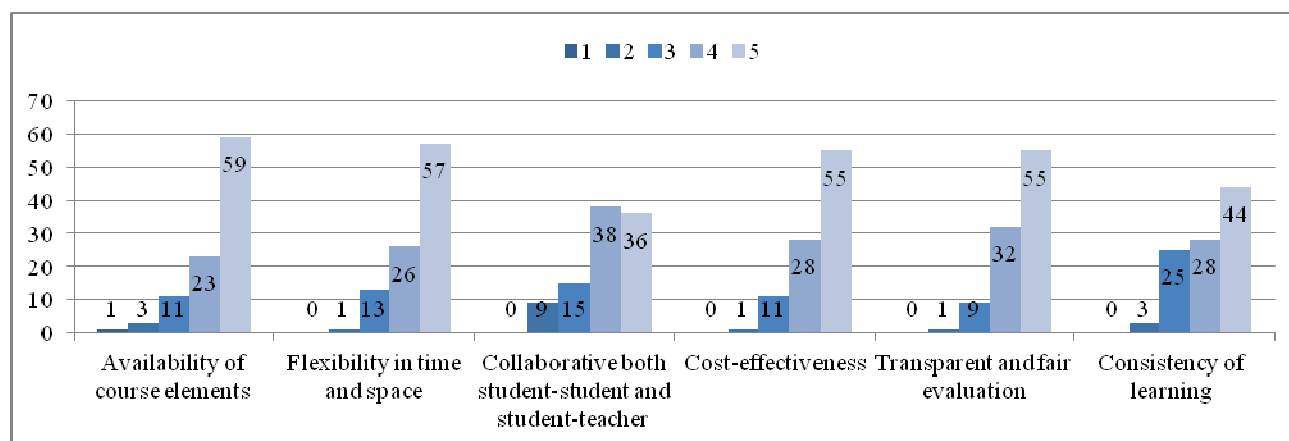


Figure 8. Rating (from 1 to 5) the Advantages of Moodle in %

Section 3- Disadvantages

Study found that students' attitude towards disadvantages of learning a foreign language through Moodle were either of human communication or technical origin. Hence, the discussion can be roughly divided into two parts. Firstly, disadvantages associated with technology were internet problems, difficulties with software (programme compatibility), lack of technical support, technophobia and IT literacy problems managing computer files. Secondly, there were disadvantages closely connected with human communication: lack of human interaction, isolation, lack of peer encouragement, lack of teacher encouragement and lack of dynamic, spontaneous communication.

Before logging into Moodle for the first time, students had to confirm that their computer hardware, software and settings were correct and compatible with Moodle requirements to be able to run the LMS. It was due to the reason that Moodle is a web-based programme; therefore a computer with Internet access and an Internet browser should be a must to enter a course. Apparently, some students found difficulty in satisfying the above mentioned technical requirements to download these applications. Other students listed internet problems as

disadvantages. No doubt e-learning gives a number of immense opportunities for language learners, however, our experience revealed that it sometimes can be disadvantageous itself, especially facing network related issues. Our students' response indicated that they were not as successful as necessary in diagnosing such issues as they range from inadequate internet connection speed, leechers, bad cables, too many Wifi's to other electronic interference. Therefore, it took them too much time to access information online and led students to frustration. Furthermore, there were students who were not able to start working in the course without technical support. As a result, our focus should be on how comfortable those students are with technology before the course starts to advise them and avoid possible technological problems.

Survey revealed that several students were uncomfortable using technologies trying to avoid them. We associated this phenomenon with the concept of technophobia regarded as a disadvantage of learning a foreign language. One of the definitions of technophobia is "an irrational anticipation of fear evoked by the thought of using (or actually using) computers, the effects of which result in avoiding, or minimising, computer usage" (Brosnan, 2006, p. 1081). Though a number of surveys

and scholarly articles are devoted to characterize and present tips to technophobic teachers, there also exist students who are not inclined to use computers due to technophobic fear. Technophobia and IT literacy problems are closely connected in a way that there is a correlation between little computer experience and higher levels of technophobia. Hence, the more competent in computer use a student is, the lower level of technophobia he or she states (Gressard & Loyd, 1986; Marcoulides, 1988; Okebukola, 1993; Dyck & Smither, 1994; Rosen & Weil, 1995; Hemby, 1998; Ropp, 1999; Chau, Chen & Wong, 1999).

Isolation and lack of such facets as human interaction, instruction, dynamic spontaneous communication as well as peer and teacher encouragement are disadvantages associated with human communication that were pointed out in students' response. A number of students emphasized their negative attitude towards isolation they confronted whilst learning in a distance. Moreover, they mentioned that the instructor was not always available when students were studying or needed help. Lack of instruction and lack of teacher encouragement suggest that students got lost about course activities and deadlines. Studying entirely alone students felt bored. They found difficulty in simulating dialogues and real discussions. Paradoxically,

though Moodle was originally designed following social constructivist principles, the findings disclose that our students didn't experience benefits of the tools to encourage collaboration and social interaction. As students did not actively involve into discussion forums, chats and writing messages, they could not overcome the emerged disadvantages of human communication origin. Though this is not in focus of our research we hypothesize that as most of our students are from remote regions of Lithuania they have quite a low level of computer literacy and no or too little experience in social networking preconditioned by inadequate computer use. Hence, they have no experience for socializing online for specific education purposes. Deeper investigation has to be carried out to prove these presumptions.

The following disadvantages of learning a foreign language through Moodle were experienced from teachers' perspective: underutilized tools, lack of quality content, timeout resources, difficult content management, time consuming course management, lack of technical personnel for in-time student and teacher training, lack of financial support for software and hardware update, lack of experienced instructional designer for development and production of online courses.

Section 4- Activity Modules and Tools

The structure of our course is based on closely interconnected language skills and language systems. The main language skills receptive (listening, reading) and productive (speaking and writing) as well as language systems (phonology, lexis, vocabulary, grammar, situational and functional facets) are taken into consideration designing the course structure. We aimed to provide a well-arranged and clearly structured course and to find the balance among activity modules to achieve

educational goals and accomplish educational objectives. Thus, the choice of Moodle tools and activity modules was preconditioned by the above mentioned theoretical framework suggesting the subdivision of Fundamentals of Business English course into Vocabulary, Reading, Speaking, Writing and Grammar. To develop diverse language skills, different activity modules and tools were used, however, most of them were intended to improve more than one skill (See Table 1).

Table 1

Moodle modules and tools used to develop particular language skills

| Vocabulary | Reading | Speaking | Writing | Grammar |
|--|--|--|---|--|
| Resources (URL; File; Folder; Page) | Resources (URL; File; Folder; Page) | Resources (URL; File; Folder; Page) | Resources (URL; File; Folder; Page) | Resources (URL; File; Folder; Page) |
| Glossary (Dictionary) | Glossary (Resource Collection) | | Glossary | Glossary |
| Quizzes/ Tests (Select Missing Word; Matching) | Quizzes/ Tests (True- False; Drag and Drop into Text) | Quizzes/ Tests (Poodle Recording) | Quizzes/ Tests (Essay) | Quizzes/ Tests (Multiply Choice; Short Answers) |
| Assignments (Online Text; Upload a Single File) | Assignments (Online text; Upload a Single File) | Assignments (Poodle Online) | Assignments (Online text; Upload a Single File; Team Assignment) | Assignments (Online text; Upload a Single File) |
| | Mind Map | | | |
| | Chat (Synchronous Discussion) | Chat (Preparation for Speaking Activity) | | |
| | Forum (Asynchronous Discussion) | Forum (Preparation for Speaking Activity) | | |

Moodle platform offers about 20 different types of activity modules and tools available to users (forums, glossaries, wikis, assignments, quizzes, polls, SCORM

players, databases, etc.). When analysing different activity modules and tools, the online environment can be divided into passive modules and tools that facilitate aspects of

course administration and interactive ones that encourage and support communication between learners/ learners and teachers.

After the completion of the course students were asked to evaluate the usefulness of Moodle activity modules from 1 to 5. The list of modules presented for evaluation included both active and passive modules and tools: Messages, Comments, Forum, Chat, Quiz/Test, Glossary, Mind Map, and Assignments.

Respondents of current research indicated some frustration with active tools: Forum (28%) and Chat (21%); giving privilege to passive modules and tools such as Resources (67%), Assignments (59%), Quizzes (57%) and Glossary (38%). Messages (51%), Comments (46%) and Mind Map (36%) occurred in the mid-position of student rating scale (See Figure 9).

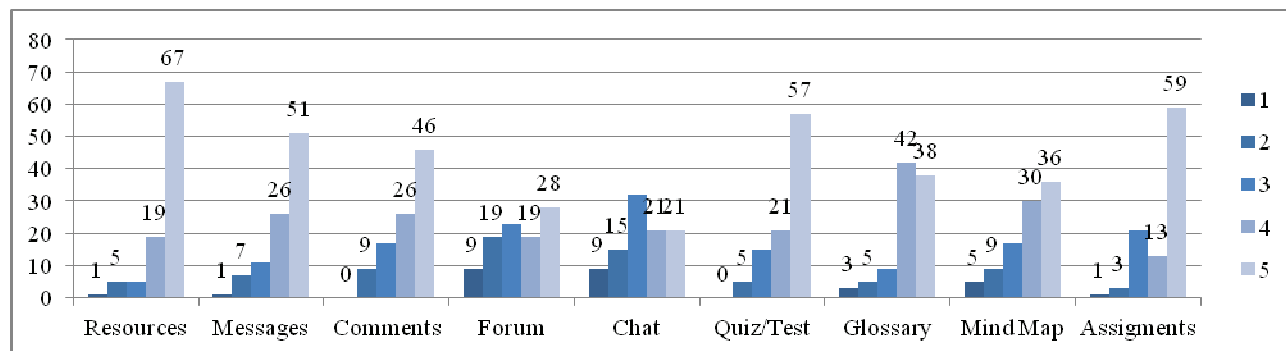


Figure 9. Rating (from 1 to 5) the usefulness of Moodle activity modes in %

Constructivism, especially the arm of social constructivism, emphasizes the importance of social interactions, collaboration and connections in the learning process. Moodle has many features that encourage collaboration and social interactions while learning however, our students didn't experience benefits of these tools.

Dissatisfied with the current situation and considering our role we plan to encourage collaboration and interaction embedding more attractive and engaging activity modes and tools and trying to show the benefits the usefulness of the selected activity modes and tools. Therefore, we plan to include wiki- a collection of collaboratively authored web documents so that everyone in the class could create page together with others. A wiki is known as an effective method for creating content as a group. So, we hope it can become a powerful tool for collaboration as all the class can work on the project together, creating a class product or each student can have his own wiki and work on it with his classmates. We plan to help students get better at their speaking ability using the Nanogong recorder, which illustrates activities that focuses on pronunciation, intonation, fluency, stress, and discussions. Moodle also provides a feature called Groups that will be used to create smaller collaboration units within a class allowing students to work cooperatively even when not sharing the same physical space and enhancing interaction and collaboration among peers. Moreover, Moodle has a number of constructivist surveys such as Galotti, Clinchy, Ainsworth, Lavin & Mansfield's (1999) Attitudes Towards Thinking and Learning Survey (ATTLS) and COLLES developed by Taylor and Maor (2000). The authors designed the tool to monitor the engagement of students in dynamic learning environments. We plan to employ these tools in future and hope that the selected set of the activity modes and tools will help to reach the constructivist guided goals and perspectives of teaching.

Conclusions

Theoretical research suggests that teaching and learning foreign languages through Moodle is based mainly on a constructivist and social constructivist approach to education. Theory emphasizes that learners can contribute to the educational experience since they are the centre of the learning, while the educator is just an advisor or facilitator. Students have to be actively involved in the process of constructing, sharing, dialogue, reflection with others. Students are regarded to be both teachers and learners at the same time, learning well by expressing something to others, understanding the context of others in a flexible learning environment.

The survey results confirm most students' initial interest and positivity to innovation and Moodle that can serve as a strong motivation for better learning outcome, proving its future potential and promising prospects for e-learning at ASU.

Findings highlight the advantages of Moodle platform that gained the highest number of positive votes. They are aligned with passive application of Moodle, pragmatic and practical approach (availability of course elements, flexibility in time and space, cost effectiveness, transparent and fair evaluation). However, Moodle's interactive benefits gained the lowest number of students' votes. It is possible that the respondents hadn't perceived the potential benefit of Moodle's interactivity. Contrarily, our aim is to make full use of Moodle's powerful interactive and collaborative features and design them into effective learning tools.

Students' attitude towards disadvantages of learning a foreign language through Moodle demonstrates that they are either of human or technical origin. Disadvantages associated with technology were internet problems, difficulties with software (programme compatibility), lack of technical support, technophobia and IT literacy problems managing computer files. Disadvantages closely connected with human communication proved to be lack of human interaction,

isolation, lack of peer encouragement, lack of teacher encouragement and lack of dynamic spontaneous communication.

Students rating of both active and passive modules and tools applied in their course (Messages, Comments, Forum, Chat, Quiz/Test, Glossary, Mind Map, and Assignments) indicated some frustration with active tools: Forum and Chat, giving privilege to passive modules and tools such as Resources, Assignments, Quizzes and Glossary.

The present study pinpointed undesirable educational outcome considering collaboration and interaction and obliged embedding more attractive and engaging activity modes and tools in order to show the benefits and usefulness of the selected activity modes and tools. Therefore, it would be reasonable to include more

different active modules and tools: Wiki, Nanogang, Groups, ATTLS and COLLES surveys. We presume that the selected set of the active modes and tools will help to reach the constructivist guided goals and perspectives of teaching in future.

Taking advantage of the Moodle constructivist benefits, teachers are required to understand that educational changes have to be given more time, allowing students to cope with the added stressors of technology and feel comfortable with the new mode of learning, sharing and collaborating. Thus, student engagement may not follow from the first day of studies. Further research in the field should be carried out to assess the effectiveness of pedagogical decisions, foresee future teaching strategies for foreign language teaching/learning through Moodle and get insights into how students see it.

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PERSPECTIVES FOR NEW FRAMEWORK OF TEACHING – LEARNING FOREIGN LANGUAGE WITH MOODLE

Summary

Rapid advances in technology and computer aided teaching have offered new opportunities and opened new horizons for teaching and learning. In 2012 the distance learning programme of Fundamentals of Business English for extramural students was launched at Aleksandras Stulginskis University. Moodle-based e-Learning environment, an innovative way of teaching/learning in a tertiary education system enforced the application of new tools, new methodologies, approaches and framework to promote active foreign language teaching and learning. However, a technology itself does not promote learning or teaching; its effectiveness depends on the teachers' and learners' active participation and involvement. Implementing innovative tools of teaching/learning has called for a very close communication between the teacher and learner. Accordingly, the research on student feedback based upon the questionnaire has been undertaken to investigate the students approach to the Moodle-based e-learning and the impact technology has on the student attitudes towards learning foreign language through the computer. The article focuses on practical approach for the improvement of foreign language course design, outlines the advantages and disadvantages of Moodle assignments, activities and resources. Although much has been written on this issue, no comprehensive research has been carried out on application of Moodle for foreign language teaching/learning at tertiary level in Lithuania. Assuming this field to be completely under-researched we directed our study towards perspectives of teaching/learning foreign language with Moodle .Our research is beneficial and helpful for teachers planning to integrate foreign language course and improve foreign language proficiency at university exploiting Moodle as an e-learning platform.

The research aim was to foresee theoretical and practical implications allowing the advancement of foreign language teaching/learning through Moodle. The research objectives involved the analysis of scientific literature related to e-learning and teaching through Moodle and presenting the results; creating an effective tool for obtaining students feedback; analysing the results and identifying the most vulnerable aspects of language learning through Moodle; drawing the conclusions and providing recommendations for customizing the appropriate pedagogical approach and maximizing teaching/learning potential through Moodle. The research methods included a review and analysis of the related scientific literature; survey-questionnaire method to get feedback from students, studying foreign language through Moodle; statistical and comparative analysis; discussion of the obtained findings and empirical research results.

The empirical research was carried out at Aleksandras Stulginskis University in the period of two semesters in 2012-2013. The research involved 52 randomly chosen first year students of extramural studies from the faculties of Economics and Management, Forestry, Agronomy, Water and Land Management, and Engineering. Blended learning was used to teach Fundamentals of Business English in a twelve-week period. At the end of the second semester the participants of the present study were explained the nature of their participation and asked to complete the questionnaires independently focusing the responses on their experiential perception. The unsigned questionnaire was administered to identify students' attitude, feedback and experience using Moodle and e-learning in general. Students had to express their agreement or disagreement with 7 statements, rate Moodle tools they used and point out the problems they had faced while learning. Statistical analysis of the data was performed and results were presented.

To sum up, theoretical research suggests that teaching and learning foreign languages through Moodle is based mainly on a constructivist and social constructivist approach to education. Theory emphasizes that learners can contribute to the educational experience since they are the centre of the learning, while the educator is just an advisor or facilitator. Students have to be actively involved in the process of constructing, sharing, dialogue, reflection with others. Students are regarded to be both teachers and learners at the same time, learning well by expressing something to others, understanding the context of others in a flexible learning environment.

The survey results confirm most students' initial interest and positivity to innovation and Moodle that can serve as a strong motivation for better learning outcome, proving its future potential and promising prospects for e-learning at ASU.

Findings highlight the advantages of Moodle platform that gained the highest number of positive votes. They are aligned with passive application of Moodle, pragmatic and practical approach (availability of course elements, flexibility in time and space, cost effectiveness, transparent and fair evaluation). However, Moodle's interactive benefits gained the lowest number of students' votes. It is possible that the respondents hadn't perceived the potential benefit of Moodle's interactivity. Contrarily, our aim is to make full use of Moodle's powerful interactive and collaborative features and design them into effective learning tools.

Students' attitude towards disadvantages of learning a foreign language through Moodle demonstrates that they are either of human or technical origin. Disadvantages associated with technology were internet problems, difficulties with software (programme compatibility), lack of technical

support, technophobia and IT literacy problems managing computer files. Disadvantages closely connected with human communication proved to be lack of human interaction, isolation, lack of peer encouragement, lack of teacher encouragement and lack of dynamic spontaneous communication. Students rating of both active and passive modules and tools applied in their course (Messages, Comments, Forum, Chat, Quiz/Test, Glossary, Mind Map, and Assignments) indicated some frustration with active tools: Forum and Chat, giving privilege to passive modules and tools such as Resources, Assignments, Quizzes and Glossary. The present study pinpointed undesirable educational outcome considering collaboration and interaction and obliged embedding more attractive and engaging activity modes and tools in order to show the benefits and usefulness of the selected activity modes and tools. Therefore, it would be reasonable to include more different active modules and tools: Wiki, Nanogang, Groups, ATTLS and COLLES surveys. We presume that the selected set of the active modes and tools will help to reach the constructivist guided goals and perspectives of teaching in future. Taking advantage of the Moodle constructivist benefits, teachers are required to understand that educational changes have to be given more time, allowing students to cope with the added stressors of technology and feel comfortable with the new mode of learning, sharing and collaborating. Thus, student engagement may not follow from the first day of studies. Further research in the field should be carried out to assess the effectiveness of pedagogical decisions, foresee future teaching strategies for foreign language teaching/learning through Moodle and get insights into how students see it.

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CHANGES MANAGEMENT AS THE PRESUMPTION FOR BUSINESS CONTINUITY

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Abstract

Applying systemic analysis of academic literature the paper discusses not widely spread social phenomenon – the impact of change management on business continuity process. The methodological approach was based on the conceptualization of changes management seeking to highlight his role on the business continuity. Its signification in today's economical conditions. Business continuity management is presented as one of most significant aims of modern organization that allows not only to stay in the market, but also to gain competitive advantage.

Today's economy and increasing competition influence organization's need to improve and pay more attention to changes that can interrupt critical business processes. Even the smallest disturbance can cause serious damage to organization and its image. The continuity of critical processes became one of the main strategic goals to every organization. Business continuity is closely associated with changes, so organization improves and that gives competitive advantage, prestige, the confidence of stakeholders. The principles of business continuity allow minimizing financial loss and gives opportunity to restore critical processes in short time period. The possibility to not only to adapt in the situations of drastic, fast changes, but also to use changes in the benefit of organization ensures long-term improvement. Business continuity management, as one of strategic goal, needs some resources. Organizations should dedicate some of material, human and time resources to ensure main organizational processes.

The author of this paper is trying to represent the phenomena and signification of ability to proceed strategic activity without any disturbance. The principles of business continuity management are highlighted not only in the theoretical, but also in the practical perspective. In this paper was conceptualized and extended terms as: „Change“ and „Change management“, „Business continuity management“ and defined the guidelines of business continuity plan.

Keywords: Change management, business continuity management, business continuity planning.

JEL classification: O33, M12, O21, M12.

Introduction

The situation of today's economic influences the need to pay more attention to risks, that can interrupt main organizational processes. Organizations face with multiple types of disturbance – made by humans or natural origin (earthquake, tornados and etc.). These disturbances confirm the signification of new phenomena – business continuity.

The accomplishment of changes and ability to use them in the favour of organization, facing some threats, ensures the continuity of main processes. Business continuity management is a holistic process, that allows to identify potential threats and the impact of those threats to organization, also this process gives an opportunity to effectively react, protecting the needs of main stakeholders, the reputation of organization, brand. Business continuity management allows minimal financial lost, when some disturbance interrupts main processes.

Scientific novelty and problematic issues: The liability of the organization is one of the most important things that customers want. So the customers and suppliers often demand a certificate that organization applies business continuity principles. Therefore emerges

construct's problem: despite in-depth scientific discussion, the description of business continuity management is still not clearly defined. The principles of change management also need some scientific discussion. These terms need additional scientific insight. In this paper author gives a scientific literature based description of business continuity management and defined change management process.

The methodology of the paper is based on analysis of academic and scientific literature studying raised issues and linking all with practical context. The business continuity management is illustrated with case study of organization that successfully deals with changes. To solve problematic issues, this paper begins with focused analysis of literature. The case study highlights practical side of business continuity and its signification to organization. The result of this paper is framework to organizations how to manage changes and ensure the continuity of critical business processes.

Analysis of Change Management Concept and Main Terms

Changes are one of continuous organizations characteristic, that occurs operative and strategic level

and ensures the existence of organization (Burnes, 2004). Changes are linked with organizational development, when in process of changes the cultural values, human resources and organizational environment are improving (Bold, 2011). In scientific literature changes are often described as modification aiming to improve or even drastically change some aspects of organization. These modifications are often influenced by environment (Cibulskas, 2006; Vasiliauskas, 2002). Based on scientific literature analysis, changes could be described as process by which organization is transforming by changing its state. This transformation is as result of improvement and accommodation to modified conditions.

M. Stanleigh (2008) identifies the main driving forces behind changes in the organization such as innovation, technology, restructuring, globalization, expansion and development of a sense of urgency, when 75 percent of leaders are indeed convinced that the organization can not be the same as it used to be up till now, and so on. So, for a higher education institution it is important to manage change even in order to maintain the same stability of its activities.

Change management is defined as the process of continually renewing an organization's direction, structure, and capabilities to serve the ever-changing needs of external and internal customers (Todnem, 2005). Since the need for change often is unpredictable, it tends to be reactive, discontinuous and often triggered by a situation of organisational crisis (Burnes, 2004; De Wit and Meyer, 2005; Luecke, 2003; Nelson, 2003). Although the successful management of change is accepted as a necessity in order to survive and succeed in today's highly competitive and continuously evolving environment.

Change management could involve different areas of live: design of systems, the change management of human resources, the improvement of health care system. In different scientific literature main change management aspects depends. W. W. Burke (2008) highlights the signification of planning – change management is a planned management of alteration. T. Creassey (2007) states that the main aspect is human resources and their improvement. Change management model gives a methodology on how to implement changes in organization (Sujova and Rajnoha, 2012). This methodology evaluates critical elements, which could influence the success of change realization.

Change is experienced as a dynamic fact in which the interactions between the different parts constitute an entity (Maes and Hootegeem, 2011). The designer is free to decide on the elements in a change system that is being considered. A change system can be constructed as follows (see Fig. 1). Usually the reason for a change will be a cause beyond the change system, more specifically within the organization itself or within the organization's system may be set in motion directly by external factors and result in unprompted effects. In addition, the change system has its own dynamics that may generate wanted, unwanted, or unexpected effects. The input for the system model of change can be one or more elements from the organizational context (strategy, structure, people, culture). This element experiences a change through the influence of the change elements of the change system. The change elements may vary depending on the input in the system.

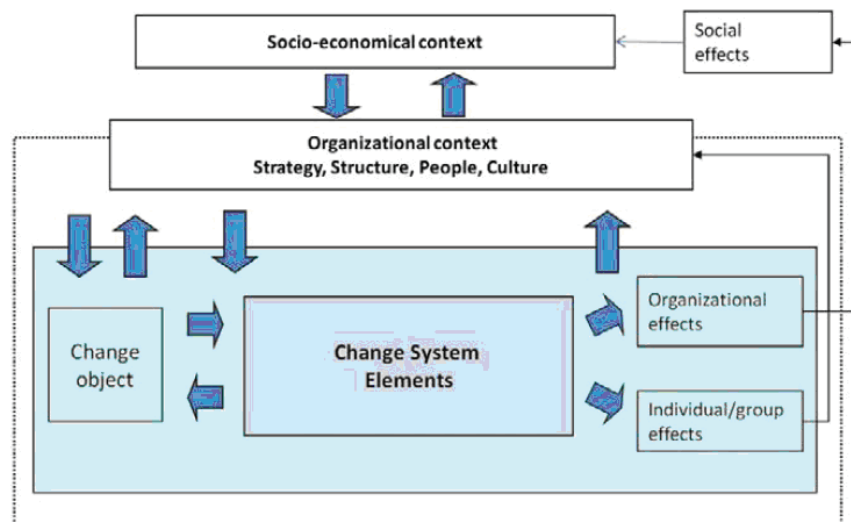


Figure 1. The Systems Model of Change Management (adapted from Maes and Hootegeem, 2011)

A systems perspective on the management of change offers additional benefits: It is better placed to position the concepts that function as components or subsystems of the change management (Jones, 2004). The system approach focuses on the interdependencies and interrelations between the different components. The qualities of change management are made obvious by

comprehending the interdependencies. System attributes turn up as qualities that exceed the different system components and hence they do not appear when considering change in terms of processes. Change management can be put in its context by creating a system type of change because then it will be a subsystem in a bigger system (Maes and Hootegeem, 2011).

Change management is very universal process, which depends on organization and modifications that is needed to make. This process can be defined as planned and systematic, when an organization is transforming from one stage to another. The leader of organization should make a decision how change would be accomplished and choose a system, strategy or a model, which would be appropriate for current situation and organization.

Insights on Business Continuity Management

Since its development in the last two decades, business continuity management (BCM) has gradually established a foothold as a function and profession within business organisations. Recent man-made and natural disasters (such as terrorist attacks, pandemics and earthquakes) have reinforced the importance of BCM in sustaining critical operations. Some industry sectors, notably the financial services sector, are championing BCM development. This is due to their reliance on technologies to support their key processes and operations. More importantly, the sector is a leading contributor to the national economy and plays a crucial role in supporting the rest of the economy, thus attracting regulatory attention to ensure that appropriate contingency arrangements are in place (Wong, 2009).

The main objective of business continuity management is to enable organisations to provide acceptable level of services to all stakeholders, including customers and other business partners in the case of certain unforeseen circumstances that may occur. The process includes developing, maintaining, deploying and managing business continuity plans. Business continuity management encourages flexibility in the operations in terms of responses to operational challenges and threats,

ensuring maximum operational efficiency of critical business processes (Turulja and Bajgoric, 2012).

Business continuity management is defined as a holistic management process that identifies potential threats to an organisation and the impacts to business operations that those threats, if realized, might cause, and which provides a framework for building organisational resilience with the capability for an effective response that safeguards the interests of its key stakeholders, reputation, brand and value-creating activities (British Standards Institution, 2009). M. Pitt and S. Goyal (2004) describe business continuity management as new and evolving discipline, the roots of which lie in information systems protection. S. Hotchkiss (2010) say, that business continuity management is the process of developing and maintaining a complete business continuity plan which will ensure the continuity of a business when disruptions occur. BCM covers plan development based on the business impact analysis, the exercising of the plan and the regular updating of the plan to reflect new threats, risks and business circumstances.

Business continuity planning is part of a business continuity management (BCM) process that identifies potential risks and vulnerabilities and their impacts on an organization (see Fig. 2). It provides processes and procedures for mitigating risks and effectively responding to a disruptive event in a way that safeguards the interests of the organization's key stakeholders, reputation, brand, and value-creating activities (Jones, 2010). Business continuity plan (BCP) is the documented procedures defining what happens when risk scenarios materialise. The plan should cover all scenarios and procedures and act as guide when business disruption occurs (Hotchkiss, 2010).

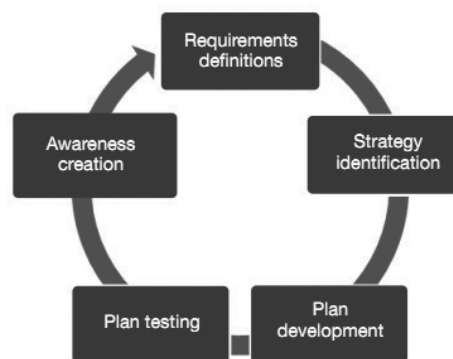


Figure 2. Business Continuity Framework (Strong, 2010)

There are several business continuity planning methodologies and models available, most of the models includes following phases (Pitt and Goyal, 2004):

- Project initiation.
- Risk assessment or business impact analysis.
- Design and development of the business continuity plan.
- Creation of business continuity plan.

- Testing and exercising.
- Maintenance and updating.

Business continuity planning can be divided into four stages.

1. The Initial Response Phase covers the organization's initial response to a business interruption.
2. The Relocation Phase involves mobilization of resources and relocation of equipment and personnel to

Alternate Facilities or Redundant Sites. This is where the recovery phase can be fully implemented to sustain minimum service levels defined for each critical process.

3. The Recovery Phase covers the period of time after personnel and equipment have been relocated to an alternate site to when the primary facilities have been restored or permanent alternate facilities have been secured.

4. The Restoration Phase covers the period of time that personnel return to restored facilities, or permanent alternate facilities. The resumption to normal business operations is implemented.

Some Experiences: Business Continuity Program

In the practice of world organizational management, best results usually are achieved when business continuity management is operating in whole activity of organization. The example of best practice could be Deutsche bank and its business continuity program. Program's main components, goals and principles are presented in the bank's website and is accessible to other organizations (partners and competitors), current and potential customers.

Deutsche Bank is one of the world's largest banks, with 65,700 employees serving 21 million customers in 74 different countries. It has investment banking and asset management businesses throughout Europe, the Pacific Rim, and the Americas. Bank in 2004 decided to create a business continuity plan.

The bank has a global business continuity and disaster recovery program which addresses data backup and recovery and procedures for minimizing changes in operational, financial, and credit risk exposures. Operational risk focuses on the firm's ability to maintain communications with customers and keep mission-critical systems up and running. Financial risk deals with the firm's ability to continue generating revenue and obtaining adequate financing. Credit risk occurs when investments erode from lack of liquidity in the broader market (Modlinks, 2012).

Every six months Deutsche Bank New York offices test their disaster recovery plan, practicing what they would do if their computer centers in the World Trade Center and in neighbouring New Jersey went down. The company's data are always backed up on tape. Tragically, Deutsche Bank lost two employees and its New York offices in the September 11 World Trade Center terrorist attacks, but the remaining employees were back working within a few days because the company is so well prepared.

The bank claims its ten main business continuity program's components (Deutsche Bank, 2012):

1. Data back-up and recovery – identification of the location of primary books and records and the location of back-up books and record. In addition, firms must be prepared to describe how they back up data, as well as how they will recover data in the event of a significant business disruption.

2. All mission critical systems – systems that are necessary, depending on the nature of a member's business, to ensure prompt and accurate processing of

securities transactions, including, but not limited to, order taking, order entry, execution, comparison, allocation, clearance and settlement of securities transactions, the maintenance of customer accounts, access to customer accounts and the delivery of funds and securities.

3. Financial and operational assessments - written procedures that allow a firm to identify changes in its operational, financial, and credit risk exposures. Operational risk focuses on the firm's ability to maintain communications with customers and to retrieve key activity records through its "mission critical systems".

4. Alternate communications between customers and firm – alternate means of communications that a firm will use to communicate with its customers in the event of a significant business disruption.

5. Alternate communications between firm and its employees – alternate means of communications that a firm will use to communicate with its employees in the event of a significant business disruption.

6. Alternate physical location of employees – alternate locations must be designated for employees, including key personnel that have been identified to assist in the resumption of business operations.

7. Critical business constituents, banks, and counter-party impact - effect a significant business disruption will have on a firm's relationship with its critical business constituents, banks, and counter-parties, and how it will deal with those impacts.

8. Regulatory reporting – available means a firm can use to continue its compliance with regulatory reporting requirements.

9. Communications with regulators – communication with regulators through whatever means are still available, including the designation of business continuity plan contacts with FINRA to assist in these communications.

10. Providing customers prompt access to their funds and securities – measures a firm will use to make customer funds and securities available to customers in the event of a significant business disruption.

The main goals of Deutsche Bank are: confidence of client, continuity of critical functions and processes, security of employees and management of main risks in the financial market. The business continuity programme in big organization like Deutsche Bank is very expensive and time required, but necessary. BCM provides minimal financial losses in the face of crisis, competitive advantage and the trust of clients.

Conclusions

The conceptual understanding and growing signification of new phenomenal – change management within business continuity management – were analysed. In this paper the necessity of business continuity management was highlighted in the perspective of fast changing economic as the possibility to gain competitive advantage and long-term development for entire organization.

The analysis of change management and business continuity management process has highlighted the signification of successful change management

process and the possibility to ensure the continuity of critical business processes. This possibility gains the confidence of clients and other main stakeholders and competitive advantage. Business continuity management in this perspective became one of the strategic activities.

Understanding of business continuity management as a management process let's to identify potential impacts that threaten an organisation and

provide a framework for building resilience and the capability for an effective response which defend the interests of main stakeholders, reputation, brand and activities that create value. The formalization of business continuity management is reflected in business continuity plan or, in big organizations, programme, strategy. Business continuity plan defines what happens when risk scenarios materialise.

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CHANGES MANAGEMENT AS THE PRESUMPTION FOR BUSINESS CONTINUITY

Summary

The challenges raised by the constantly changing business environment require developing the adequate system for business performance measurement and valuation. This issue is nonetheless critical for transportation and storage sector, the development of which is important not only to separate business entities, but also highly contributes to the sustainable society, considering environmental, quality of life, sustainable business issues. There are many performance measurement systems (PMS) that involve different perspectives and criteria for valuation, however in order to make the detailed and adequate valuation, the combination of measures corresponding the particular business case is necessary. The non-financial measures as being the core are argued by different scientists analysing the PMS, though the financial measurement remains important in all of them. In this paper the selection of measures was related to the availability to make the financial valuation of sector enterprises and comparable the results between years. The aim of this paper is to disclose the main PMS and metrics used for performance measurement in transportation and storage sector financial valuation. The paper is divided into three sections. The first presents the background literature, consisting of PMS, metrics, and financial indicators analysis. The second presents the methods used in empirical research, which are factor analysis, clustering, correlations. The last concludes the results of empirical research and provides the discussion on Lithuanian transportation and storage sector characteristics and changes in financial state.

PMS is interpreted as a tool for balancing multiple measures (cost, quality, flexibility and time) across multiple levels (organisation, process and people) (Neely, 2005). The PMS are applied in different companies, regardless of sector, and are important for transportation and storage sector (Stoop, 1992; Isoraite, 2004, 2006). The famous, mostly applied in businesses and discussed in scientific literature PMS are: Balanced Scorecard (BSC), developed by Kaplan and Norton (1992), The Performance Prism (Neely et al., 2001), the Strategic Matrix of Sink and Tuttle (Tangen, 2004), TOPP performance model (Rosstadas, 1998), The Performance Pyramid (Cross, Lynch, 1992), The Theory of Constraints (TOC) (Striteska, Spickova, 2012), The Performance Measurement Matrix developed by Keegan et al. (Neely et al., 2000). Process Performance Measurement Systems (PPMS) are a special type of PMS that should be used in process-oriented organizations (Glavan, 2011).

The PMS analysed suggest different perspectives and criteria for performance measurement, and all of them include the financial valuation although in different scale. The balanced set of measures allows evaluating the performance of the business process in different levels and identifying the improvement areas. The dimensions used can be classified in different ways: qualitative and quantitative measures; “hard” and “soft” measures; financial and non-financial measures; result and process measures; measures defined by their purpose (result, diagnostic, and competence), efficiency, effectiveness, and changeability and the six classic measures (cost, time, quality, flexibility, environment, and ethics) (Fagerhaug, 1999; Neely et al., 2000; Glavan, 2011).

The metrics used in transportation and storage sector varies although measures the functions (internal and external), focuses on time, quality, availability, cost, profit and reliability, may be financial (cost and revenue) or non-financial (service and productivity), and includes success factors for all business levels (Krauth et al., 2005 a, b; Lambert et al., 2001; Asadi, 2012; Alcantar, Loranca, 2013; Kumar, 2013). Corresponding to in-depth surveys made by Krauth et al. (2005 a, b), Christopher (2007), Langrey et al. (2009), Palsaitis (2010), Lambert et al. (2001); Asadi (2012); Karlaftis, Kepaptsoglou (2012), Alcantar, Loranca (2013), Kumar (2013) the metrics used for performance measurement in transportation and storage sector enterprises were classified as internal (service position, revenue, costs, earnings, assets, travel costs, management/employees) and external as customers (perceptions, costs and time, flexibility), investors (return, market value, liquidity), governmental (accessibility, mobility, economic development, quality of life, environmental, safety, system preservation, financial). The grouping of financial indicators is explicitly analysed by Mackevicius (2007, 2009). The grouping suggested by authors is productivity (profitability, expenses, turnover), liquidity/solvency/leverage (short-term solvency, gearing/leverage, debt servicing), and market value (return to shareholders, share price evaluation). The set of indicators used for performance valuation differ according the tasks raised by the analysts or by stakeholder interests as shareholders, potential investors, creditors, suppliers, clients, competitors, state institutions and the company itself.

The general characteristics of the sector revealed from statistical and financial data show that businesses in average require high capital investments, crediting of receivables, and debt. The enterprises are highly involved in international trade. Larger companies in the sector are more profitable, use their assets more efficiently, and, as a result, have more funds to cover debt or interest expenses, and are more productive as well. Enterprises having larger share of foreign and local private capital are more efficient compared to those having larger share of state capital, although the latter have lower credit risk. Longer financial cycle means higher value of net working assets and need for higher volume of funds for service provision. In case of enterprises of transportation and storage sector longer financial cycle is mostly associated with large receivables.

In the period of 2005 – 2007, the major part of enterprises acting in transportation and storage sector had high indebtedness level, but were relatively good in managing working capital and earnings. The smaller part of enterprises can be characterised as profitable companies, having relatively low debts in their capital structure, but very high funding demand to cover net working assets. In the period of 2008 – 2011, the major part of enterprises had low or negative margins and especially high debt levels in capital structure, as a consequence of economic downturn, but relatively low working capital requirements. The smaller part of enterprises faced a problem of high receivables, although they are determined by the specific features of warehousing and storage activities and high receivables remains as the source of risk in growth and downturn periods. The impact of economic downturn was the heaviest in 2009 and 2010, with highest bankruptcy rates, decreased profitability and higher debt levels. Situation in 2011 was better compared to 2008 and 2009, but remains tense.

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PERSPECTIVE ON GENERATIONS: THEIR IMPACT ON HIGHER EDUCATION MARKETING

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Abstract

Perspective on generations and their impact on marketing has become a topical issue but previous researches have more focused on the description of generations rather than on their influence on marketing. This paper however explores the generational impact on higher education marketing. Current literature on generations' perspective and their role in higher education marketing are examined to give context to this work. The article employs general research methods, including monographical and logical construction tools to answer the research questions. The research goes on to offer initial conclusions and suggestions to overcome the identified problems. The work is exploratory in nature and it highlights the perspective on generations as a rapidly evolving area of perceived importance. In the conclusions the author discusses on some of the issues related to generational impact on higher education marketing.

Keywords: Baby Boomers, Generation X, Generation Y, Generation Z, higher education marketing.

JEL Classification: M31.

Introduction

During the decades people are being influenced by many things – history, politics, economics which all together develop values, experience and behaviour of a person. Due to these processes generational changes should be viewed as reflections of change in society (Twenge, 2009). Accordingly, organisations need to try to understand and gain the attention of this diverse society (Williams & Page, 2011). Changes have developed so called generation gap – the difference in opinions, values, attitudes or behaviour between older and younger people which often causes problems between them (Macmillan, 2007), (The American Heritage Dictionary of the English Language, 2011). These problems can vividly been seen also in education service sector (read more in Natale and Doran, 2012). In times when our population is aging and the demographical situation is changing (Commission of the European Communities, 2006); (European Parliament, 2011); (Seņkāne, 2011); (Behmane, 2011) more and more often groups of the society representing opposite opinions meet or, in other words, different generations communicate.

Everyday work of marketing specialists is connected with striving to understand people needs. Most vividly it can be seen in the process of selling different goods. Marketisation of higher education in Latvia is not so developed as marketing in other service sectors although it is characterised by intensive competition conditions (Higher Education Quality Evaluation Centre, 2013) and it is featured by the fact that majority of the population of Latvia is involved in study process (Izglītības un Zinātnes Ministrija, 2005). All above mentioned stresses the novelty and significance of the article – it is essential to develop and build relationship

with the society and potential students. Unfortunately the management and the marketing teams of higher education institutions rarely pay attention to the different generations of today – Baby Boomers, Generation X, Y and Z. In addition, a new Generation Alpha is on its way. This has led to a problem that higher education institutions ignore part the society and even potential students. Higher education management should keep in mind that society plays an important role in brand meaning creation (First, 2009) which also means marketing.

Understanding different generations is essentially important, firstly, because students today differ from those in the past or those in the future and secondly, it is significant to understand the differences of generations for improvement of the study process, as well as, its marketing efforts. There are real differences among the generations and many of them strongly influence education (Twenge, 2009).

The topic of this article is innovative and has not been raised in discussions very thoroughly not only in Latvia but also abroad. Therefore, this paper attempts to gather the available materials from diverse sources in order to prove the presented arguments. The research goal of the paper is not only to describe four different generations (Baby Boomers, Generation X, Y and Z) but also to analyse their impact on higher education marketing, pointing out the potential problems in the field and attempting to provide useful recommendations. The methodology for achieving the goal of the research is based on the logical analysis of the current monographic literature found on the research databases and the Internet. The author of the article has analysed the works of the contemporary authors and implemented the

knowledge to the research topic for answering the unknown questions.

The following chapter denotes the notion of generation and gives a description of the four generations influencing the work of higher education marketing teams today. The second chapter analyses the generational impact on higher education marketing and names the opportunities to market the service of higher education institutions. In the end of the article the author comes up with the recommendations to help the marketers to develop strong marketing strategies of higher education institutions and outlines further potential research areas.

Perspective on Generations

The article looks upon four main generations which mostly influence the work of higher education institutions and their marketing teams. The author of the article understands generation as a group of individuals born and living about the same time (Macmillan, 2007), (The American Heritage Dictionary of the English Language, 2011). Table 1 gives the main information of each generation looked upon in this article, i.e., the name of the generation, the approximate years of birth, the age in 2013 and the number of representatives in Latvia for demonstrating the proportions of generations.

Table 1

**Stakeholders' Generations in
Latvian Higher Education**

| Generation | Date of Birth | Age in 2013 | Number in Latvia |
|--------------|---------------|-------------|------------------|
| Baby Boomers | 1949-1963 | 50-64 years | 411,919 |
| Generation X | 1964-1978 | 35-49 years | 414,845 |
| Generation Y | 1979-1993 | 20-34 years | 425,328 |
| Generation Z | 1994-2008 | 5-19 years | 290,678 |

Baby Boomers

The Baby Boomers were born during 1949-1963 and are in the 50-64 age range in 2013. This generation got its name by the increasing number of child-birth after the World War II (History Magazine, 2013). In Latvia the population of this generation is represented vividly with more than 400,000 inhabitants (Central Statistical Bureau of Latvia, 2013). The author of the article would like to believe that this generation represents the parents or grand-parents of the students today. In addition, they are one of the most important stakeholders that education system in Latvia has.

People born in this time value self-expression and individualisation (Williams & Page, 2011) and they are capable of challenging the system as they grew up in a time of reforms – these people fight for their ideas with full force. Baby Boomers generation is working hard to achieve their dreams. It is believed that this generation is extremely hard working or even workaholics (Kane, 2013). In addition, they are one of the most responsible generations with high social involvement – they pay taxes accurately and they are active voters of the parliament

(Gleizde, 2012). As these people are hard-working and they are not afraid of bureaucracy, Baby Boomers have taken up the high positions in society, for example, managers, politicians etc.

Regarding to marketing this generation requires small changes but significant improvements (Williams & Page, 2011). This is a tricky moment concerning not only education, but also marketing. It is hard to find the golden mean in between. Nowadays the developments force the education institutions change and marketing specialists to show it. Baby Boomers understand the value of money which is also reflected in their buying habits – they want high quality for a good price and if the marketer cannot ground the quality of the service the price has to be decreased. Due to this, different researches proving the quality of higher education institution could be of help, for example, European Social Fund project “Evaluation of Higher Education Study Programmes and Proposals for Quality Improvement” which took place in Latvia from 2011 till 2013.

Due to these characteristic traits it is a challenge of managers' of higher education institutions or their marketing specialists to develop a strategy which would address this generation. One of the solutions is by stressing the core values of the education, higher education institution, gained profession etc. Although Baby Boomers is one of the largest generations by the number of inhabitants it is not the key target group of higher education institutions, the same as the generations before, for example, Depression or Pre-Depression generation. Baby Boomers as the parents or grand-parents of the students today have a slight possibility to influence the opinions of students or potential students of higher education institutions still they are the tax payers of a state which supports the development of higher education institutions. The author of the article believes that by expressing the values of the institution to the public the contact with the Baby Boomers generation could be developed.

Generation X

The Generation X, named after a title of a book written by a writer Jane Deverson and a correspondent Charles Hamblett in 1965, was born during 1964-1978 and in 2013 they are in age range from 35 to 49 years. This generation is represented by 414,845 inhabitants which is one of the biggest portions of population in Latvia (Central Statistical Bureau of Latvia, 2013).

This generation is characterised as well-educated but under-employed. Success for this generation has been less certain; therefore, this was the first group of people to challenge the long-held belief that each generation is destined to be better off than the one preceding it (O'Brien, 2013). Generation X taste is not like Baby Boomers taste. Having no strong moral values (Macmillan, 2007), they blame Baby Boomers for the materialism and causing difficult times for Generation X. It is believed that because of this Generation X tend to be less traditional than any other generations – they are individual, multicultural and with global thinking (Williams & Page, 2011). Using these characteristics

higher education institutions could stress the uniqueness of the service provided, for example, if a representative of generation X has decided to study, the institution could emphasise the possibility to study at student's own pace and desires, as the members of this generation seek to differ from others.

Generation X highly respects their freedom and family. Unlike the previous generations this generation work to live rather than live to work (Kane, 2013), leaving additional time for spending together with their children. Due to this Generation X relies on state and believes that the state will take care of them. In addition, this generation is flexible and they have a reputation of being incredibly disloyal to brands, companies or institutions (Gleizde, 2012). This complicates the work of marketing teams. As one of the key values of this Generation is family, it should be highlighted and worked upon. Higher education institutions should treat Generation X like a family to the institution. One of the ways of doing it is by asking Generation X for their feedback and share different kind of information with them.

It has to be admitted that this generation is in the age group more of parents than potential students or they can be students who have already received their first education and now are interested in part time studies as they are willing to retrain. Keeping in mind their wish to belong, higher education institutions can work on the retaining programmes and market them as the way back to the "study family". Generation X is eager to learn new skills but wants to accomplish things on their own terms (Kane, 2013).

Generation Y

Generation Y was born during 1979 to 1993 and in 2013 they are in the age range from 20 – 34 years. It has to be admitted that this generation is one of the most widespread groups of inhabitants in Latvia (Central Statistical Bureau of Latvia, 2013) and they are the main working force and tax payers of the upcoming years. This is the generation studying at higher education institutions at the moment.

This generation grew up into technological and electronic society with global boundaries becoming more and more transparent (Williams & Page, 2011). They are used to rely on technologies to perform better in their work and studies. Generation Y is mobile and in touch everyday anytime; they are used to contact with people through e-mails and cell-phones better than in face to face interaction. This is the reason why e-learning and other developments in education have started its way up; interactive boards, webinars and online consultations is the new face of education, leaving the lecture based presentations in the past. They are able to easily grasp new concepts as they are used to multi-task and they are very learning oriented; most of them are planning for lifelong learning experience (Williams & Page, 2011).

Generation Y have high expectations of life, therefore they are demanding and seek new challenges and they are not afraid to question authorities (Kane, 2013). Everything they do should be meaningful,

ambitious and achievement-oriented. They are independent and autonomous who evaluate speed accordingly they are impatient and seek for innovations.

Generation Y is fond of being a part of a group. They value and look for brands that resonate with their peers which often guides product and brand choices. This generation likes products and services customised to their unique needs and brand names are important. They are most likely to purchase prestige products and expect it to be associated with their choice (Williams & Page, 2011:28-29). This gives the marketing teams of higher education institutions a great area of work. Due to the development of the Internet, Generation Y is addicted to it and is sometimes considered to be lonely. For this reason they like to get involved and to be listened to (Gleizde, 2012). Students' self-governments, Alumni organisations and other students' groups is the key factor of market higher education institutions to Generation Y. The mission and vision of the institution will be the value which has to be taken to this generation. They want products and services with a purpose greater than the bottom line.

The same as other generations they wish for regular feedback; it is the way how they evaluate their input in all things they participate. By giving the feedback of a research or evaluation, higher education institutions develop a link with the students or potential students. Institutions should work with Generation X as their partners because they understand the old and the new generations (Gleizde, 2012). In addition to all above mentioned this generation can be contacted through parents or grandparents as they honour their families.

Generation Z

Generation Z refers to those individuals who were born in the decade following the widespread emergence of the World Wide Web or, in other words, people born from 1994 to 2008. In year 2013 this generation is at the age range from 5 to 19 years. This is the part of society which is the potential students of higher education institutions in due time.

This generation has the ability to process large amount of information and they highly evaluate fast and immediate actions as they have got used to speed from an early age (Addor, 2011). They are accustomed to high-tech and multiple information sources, with messages bombarding them from all sides (Williams & Page, 2011). Because of this, students of Generation Z need only an assignment and aim of doing an exercise and they will find the necessary information themselves.

As consumers of a product or service, Generation Z has always had more options in the marketplace than their predecessors; therefore, their choice is likely to be strong. Still they are brand addicted as they believe that brands reflect their personality. In fact, they openly affiliate with various brands (Whisman, 2009). Hence, ideally, the brand should act as a magnet – supplementing relationship marketing efforts and drawing all constituents closer together (Beneke, 2011). Generation Z evaluates peer acceptance and they need to belong, therefore brands is of help also here. Group acceptance is

one of the most important things in Generation Z lives as they seek for communication.

The age of these individuals is connected not only with the development of technology and global world but also with the economic recession. Kids who grow up in recession are often less confident; it is believed that they settle in lower paid jobs and are more fearful about financial difficulties (Wood, 2011). To avoid that, education institutions can offer more pragmatic studies to supplement what this generation learns at home. Generation Z wants to know what they need to know without all the “details” (Addor, 2011). What is more important, education is valued as a means of gaining safety and security is appreciated more than ever. Instant access to the Web has bolstered respect to knowledge saying “It’s cool to be smart” (Williams & Page, 2011). Accordingly this generation reports greater stress and pressure to achievements at a young age, which is fuelled by parents who get over involved in their children lives.

Generation Z judges where they spend their money because they make purchases themselves from an

early age which has led to a situation that marketers go after early loyalty. It is already proven that children are able to recognise brands from the age of about 18 months (Williams & Page, 2011). As this generation is already used to money value it may result into people who are very brand sensitive, but not very brand loyal (Wood, 2011).

Generational Impact on Higher Education Marketing

Taking in consideration the different generations the author of the article came up with the marketing possibilities of higher education institutions for each generation looked upon before. Table 2 gives the main information of the characteristics each generation have and names the ways of marketing the service of higher education institutions. It has to be admitted that marketing services is not an easy task. It is influenced by the people working in the organisation; still some common solutions can be formed.

Table 2

| Description of Marketing Opportunities to Different Generations | | |
|---|--|---|
| Generation | Description | Marketing opportunities |
| Baby Boomers | <ul style="list-style-type: none"> • Individuals • Fight for ideas • Hard-working • Socially responsible • Conservative • Values quality and money | <ol style="list-style-type: none"> 1. Stress core values of an institution 2. Evaluates fact sheets for helping to make the decision 3. Needs personal attitude of an institution, e.g., direct correspondence 4. Goes to professional seminars 5. Reads internet blogs of professional advisors 6. Appreciates appearance on TV programmes or professional magazines 7. Enjoys benefit offers or loyalty programmes 8. Researches verifying the quality of the institution |
| Generation X | <ul style="list-style-type: none"> • Well-educated • Under-employed • More introvert than extrovert • Wants to differ • Family oriented • Disloyal to brands | <ol style="list-style-type: none"> 1. Evaluates tips for balancing work, studies, family 2. Wishes for useful and practical retraining education programmes 3. Wants to be part of a developed “study family” 4. Credits baby-sitting possibilities in higher education institution etc. 5. Needs feedback and additional information 6. Can be used as consultants for higher education institutions |
| Generation Y | <ul style="list-style-type: none"> • Relies on technologies • Addicted to Internet • Highly developed multi-tasking skills • Likes to belong • Demanding • Achievement-oriented • Evaluates speed • Fights for greater ideas | <ol style="list-style-type: none"> 1. Can be reached through the right magazines, home-pages, TV programmes etc. 2. Enjoys humour and irony about themselves 3. Uses YouTube, Facebook, Twitter etc. 4. Enjoys the role of a partner to an institution 5. Likes to get involved and to be listened to 6. Can be addressed through parents and grand-parents |
| Generation Z | <ul style="list-style-type: none"> • Evaluates convenience • Analyses multiple information • Brand addicted • Needs peer acceptance • Communicative • Evaluates knowledge • Values money • Wants to grow up faster | <ol style="list-style-type: none"> 1. Stress the innovations of the institution 2. Develop new programmes, applications, social games etc. 3. Consider them young grown-ups 4. Communicate through special TV programmes and web-sites 5. Participate in music and arts festivals 6. Use mouth to mouth communication 7. Appear in different social gatherings |

Marketing higher education institutions is a challenging activity. Each characteristic trait of generations has to be taken in consideration. For example, Baby Boomers have to be respected as their experience and social responsibility influence the education today. These people represent an opinion that education has emotional merit and it has more social aims like preserving values and traditions (Jiang, 2008). They evaluate the core values of education – gained professions, traditions of education institutions etc. Baby Boomers want to be listened to and respected, hence higher education institutions should react to that. Stressed values and developed fact sheets help Baby Boomers to make their decisions faster. Polite and personal attitude (direct mails, telephone calls) develops their respect to the institution. As Baby Boomers are high level managers they seek to and they are able to give valuable professional advices. This can be developed as another possibility of attaching to this generation – seminars, articles, internet blogs or TV programmes with professional characteristics is the right way to contact with them. As most of the generations also Baby Boomers enjoy receiving feedback, accordingly final data of researches made has to be sent personally to their e-mails. Another marketing approach is to develop benefits or loyalty programmes, for example, study tuition fee discounts for family members etc.

Marketing to Generation X takes another angle of this complex process. Majority of these people have already gained their first education degree and their main motivation is to retrain for getting better job offers or salaries. As they are not loyal to brand they will be ready to study only if their personal life will not be affected badly. They seek practical and professional education and they wish to belong to a “study family” – group of people who are helpful and eager to study together. The evaluate opportunity to take their children with them and leave them with a baby-sitter at the institution. They enjoy the possibility to consult and give their input in the development of higher education institution.

Generation Y is the students of today. The author of the article would like to stress that the following generations gradually differ from their parent or grand-parent generations. Generation Y and Z is fully influenced by the development of technologies and World Wide Web. No traditional advertisements will work on generation Y or Z; correspondently Public Relations specialists are of great help here. Generation Y follows the buzz element in the society, they enjoy humour or irony about themselves or others. They actively use different social homepages where they can express their opinions and communicate with other members of their group. This generation has to be considered and the partners of the higher education institution as they like to get involved. This generation is one of the few which can be addressed not only through magazines, homepages or TV programmes, but also through parents and grandparents.

Generation Z is fully addicted to Internet, new technologies and innovations. This is also the best way how to address them –social portals, developed programmes or applications on mobile phones or internet

games. They consider themselves as grown-ups very early and they should be treated like that. Generation Z actively participates in different activities – sports games, music festivals or arts gatherings. They are active in communicating hence mouth to mouth opinions spreads in an enormous speed. They use Internet and Google search engine every day and their best study process happens through this. This proves that education today has changed a lot from structural and authoritarian to engaging, visual and multimodal. Higher levels of technology will make significant inroads in academics allowing for customised instructions, data mining of student histories to enable pinpoint diagnostics and remediation or accelerated achievement opportunities (Schroer, 2012) – this all together develops a new area of further research possibilities.

It has to be admitted that marketing the service of higher education institutions is not an easy work. It is never-ending communication with the society which has to be done taking in consideration the values and key characteristic traits of generation.

Conclusions

The research described upon develops a new area for further research possibilities as it can be concluded that higher education and higher education marketing are influenced by characteristics and beliefs of different generations. The author of the article holds a point of view that clear generational gap has been formed between different generations which is the biggest value of this research. For example, older generations who have lived through different political instabilities and educational reforms represent a point of view that education cannot be looked upon as a business, a product or a service. Because of this attitude, teachers and lecturers are treated with respect which makes their belief of education to be outstanding and distinguishing.

On the contrary, the new generations see higher education as a profit making opportunity. Nowadays society has started to consider that a bachelor degree is a must if one wish to be successful in his/her life and even a master degree is becoming a norm. What once was rare, today is common. In times when students' payments have become one of the main investments in higher education, it is logical that education is seen as from a business perspective.

With a help of European and other funding sources the idea of lifelong learning has developed greatly and people have found the opportunities to study when they wish and as long as they desire, if only time and finances allow. The author believes that this is one of the reasons why the new generation does not perceive higher education as something inapproachable. Education and getting higher qualification has become an everyday activity and because of this education has lost its uniqueness. If managers of institutions realise the change of society thinking, they also understand that each generation has expectations, experiences, history, lifestyles, values and demographics that influence their behaviours.

Today the society is more brand-oriented than previous. If students can be enticed to become passionate about the brand, and if they want to actively be associated with it, they are more inclined to enter into a relationship with the organisation. If an institution has a magnetic brand then all people despite the generation will be willing to be associated with the brand; students will apply to the study programmes at the specific institution because everybody wants to be unique. Still it has to be noted that practise that has historically achieved success in the past have no guarantee of doing that in the future.

Managers should never stop looking in the future; for example, trying to understand the next generation which is ahead – Generation Alpha (born after 2010). It has been predicted they will be the most formally educated generation in history, beginning school earlier

and studying longer. The children of older, wealthier parents with fewer siblings, they are already being labelled materialistic (Holroyd, 2011). Looking in the future of higher education marketing it has been noted that it looks like the future is bright – students will study, and parents will be able to pay, still not only parents, but also students will ask high quality for the named price. Highly diverse environment makes the schools of the next generation the most distinctive than ever.

Higher education institutions marketers need to understand the involved generations as it becomes easier to build relationships and gain trust. It is important to establish strong relationships with students before they even arrive at the institution, continue to build upon those relationships while they are studying and ideally extend the value of those relationships across a lifetime.

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PERSPECTIVE ON GENERATIONS: THEIR IMPACT ON HIGHER EDUCATION MARKETING

Summary

In times when the number of students is decreasing and the amount of higher education institutions is increasing, it is necessary to understand the different stakeholders of education. Each generation is influenced by the events and values of the time which creates the character of a person.

Marketing teams of higher education institutions need to think of a brand that reflects the values which corresponds to those of the different generations. Today higher education institutions need to analyse four different generations – Baby Boomers, Generation X, Generation Y and Generation Z. The focus of this article is to describe the four generations and name the possible ways for marketing teams to communicate with the stakeholders of higher education and address their unique needs.

In the article the author denotes what is generational gap and generation. Generational gap is the difference in opinions, values, attitudes or behaviour between older and younger people which often causes problems between them. Generation is a group of individuals born and living about the same time. Besides that the author of the article gives short description of each generation of Baby Boomers, Generation X, Generation Y and Generation Z.

In the second part of the article the author names different possibilities of marketing the higher education institutions. Each generation has its own needs that can be taken in consideration when developing a marketing strategy. This article names few of the ways. The author stresses that the latest generations clearly differs from those generations before as they are fully influenced by the development of technologies and World Wide Web.

In the end the author names the future research opportunities concerning the upcoming Generation Alpha which will be one of the most formally educated generations in the history and the influential factors on education of the development of new technologies.

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LIMITATIONS OF THE CORPORATE SOCIAL RESPONSIBILITY: COMPARATIVE ANALYSIS IN EUROPEAN UNION AND LITHUANIA CONTEXT

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Abstract

The scientific paper is intended to reveal limitations of the corporate social responsibility (CSR) in Lithuania and European Union (EU). New technologies, integration, globalization, increasing consumption, environmental and social problems at present time are very relevant. One of the most effective means for enterprises is implementation of CSR in their activities in order to overcome these challenges. However, enterprises before implementing and during the process of the implementation are facing various limitations of CSR. The aim of the paper is to reveal limitations of CSR through a comparative analysis method and highlight similarities and differences of limitations of CSR between Lithuania and EU countries.

Keywords: corporate social responsibility, limitations, European Union, Lithuania.

JEL Classification: M14.

Introduction

Corporate social responsibility (CSR) - is one of the factors, providing for enterprises a long-term competitive advantage. CSR also helps to promote productivity, loyalty of employee and improve relationships with stakeholders (Carroll, 1979; Dahlsrud, 2006; Ruževičius, Serafinas, 2007; Fifka, 2009; Chiu, Hsu, 2010; Čaikė, 2011; Okada, 2011; Gabriel, George, 2013). CSR is based on The Global Compact in 1999, and its ideas are spreading not only in Lithuania, but also in other foreign countries. CSR is particularly relevant nowadays: new technology, integration, globalization, increasing consumption, growing small, medium and large enterprises, exhaustion of natural resources and other environmental and social problems presented new challenges and requirements for the enterprises. The importance of CSR shows growing number of the socially responsible enterprises too. The enterprises are beginning to realize that the environment or social environment problems are not just the prerogative of the state institutions and CSR provides a benefit for all the stakeholders.

The importance of CSR emphasizes by given special attention of researchers. The topics of CSR topics examined these foreign authors: A. B. Carroll (1979), M. Kilcullen, J. O. Kooistra (1999) J. E. Blagov (2004), L. Tetreova (2011), S. Hakala (2012) and others. Meanwhile, CSR examined in their papers in Lithuania by these authors: D. Bernatonytė, R. Vilkė, E. Keizerienė (2009), R. Pučėtaitė (2009), D. Bagdonienė, E. Paulavičienė (2010), Z. Gineitienė, L. Žiogelytė (2010), S. Čaikė (2011) and others. It is important to note that CSR has examined not only in theory (various definitions of CSR analyzed, advantages, obstacles of CSR was

given and etc.), but also in practice, for example, small, medium and large enterprises was tested before the beginning of the economic recession and in the beginning of it. There are a various researches done in different countries, such as, some authors analyzed the CSR, which occurs in European countries (Mazurkiewicz, Crown, Bartelli, 2005; Arlbjorn, Warming-Rasmussen, van Liempd, Mikkelsen, 2008), other authors examined individual objects, for example, only CSR in Lithuania (Ruževičius, Navickaitė, 2006; Vogulytė, 2007; Čepinskis, Sakalauskaitė, 2009; Česynienė, Neverkevič, 2009; Kovaliov, Snieska, Simanavičius, 2009; Pučėtaitė, 2009; Bernatonytė, Vilkė, Keizerienė, 2009; Špukienė, Špukaitė, Urbonienė, 2009; Štreimikienė, Pušinaitė, 2009; Mačys, Vijeikis, 2010; Šimanskienė, Paužuolienė, 2010; Česynienė, Diskienė, 2011), and others choose to investigate the expression of CSR only in the one company (Gineitienė, Žiogelytė, 2010). However there are not found studies of researchers, which would have examined companies from Lithuania and others 26 countries of European Union, particularly which would have compared limitations of CSR. Also there few studies found (especially in Lithuania), where the object of the paper would be limitations of CSR and even fewer of these detected, which examined limitations of CSR and their solutions (Česynienė, Neverkevič, 2009). Thus, according to authors, which detected interfering factors of CSR implementation or operation, was elected various limitations of CSR and determined which of them are most likely to occur in enterprises from different EU countries. It is important to determine limitations of CSR in order to find solutions for them or to eliminate or at least reduce them, that enterprises could successfully implement CSR, which would provide them a long-term competitive advantage over competitors.

The object of the paper: limitations of corporate social responsibility.

The aim of the paper: carry out a comparative analysis of the limitations of CSR in EU and Lithuania context.

The objectives of the paper:

1. Define the concept of CSR, by presenting genesis of CSR.

2. Discuss CSR in EU and highlight limitations.

3. Summarize CSR researches in Lithuania and highlight limitations.

4. Compare limitations of CSR in EU and Lithuania and make recommendations to eliminate them.

Methods of the paper: analysis of scientific literature, comparative analysis, document analysis.

The concept of corporate social responsibility and its genesis

CSR is already widely spread, and the rudiments of it, according to J. Ruževičius, D. Serafinas (2007) and Z. Gineitienė, L. Žiogelytė (2010) were noted in the world since 1930, and the use of the term “corporate social responsibility”, according to various authors (Carroll, 1979; Blagov, 2004; Dahlsrud, 2006, etc.), were associated with H. Bowen, he was one of the first who made attempts to establish a link between the enterprise and the society.

Meanwhile in Lithuania, according to Z. Gineitienė, L. Žiogelytė (2010), the CSR began forming in 1990 in Lithuania. However, the implementation of CSR principles were intensified when the country joined the European Union.

The scientific literature reveals, that CSR in the researches papers (Ruževičius, Serafinas, 2007; Fifka,

2009; Bagdonienė, Paulavičienė, 2010; Chiu, Hsu, 2010; Okada, 2011; Gabriel, George, 2013 and etc.) is named differently, such as, “organization social responsibility”, “enterprise social responsibility”, “corporate social responsibility”, “business social responsibility”, “common social responsibility” and so on. In this paper, these concepts considered synonyms and are limited to the term “corporate social responsibility”, which is not only the most commonly used one, but also this term is suggested by Lithuanian linguistics specialists B. Gruževskis, N. Vasiljevienė I. Kleinaite, J. Moskvina (2006).

The analysis concepts of CSR’s presented by foreign and Lithuanian authors, reveals, that there are lots of them and there are new ones created too. According to G. A. Steiner (1975), CSR is a philosophy, which looks at the social interests and the luminous caring business. This definition is not exhaustive and it is not clear enough. S. P. Sethi (1975) argues that CSR is a company’s movement to a new level, which corresponds to the social norms of society, its values and expectations. H. Bowen (1953) is defining the CSR similarly, because he pays attention to the public interests, arguing that CSR – is a commitment to carry out such actions and to follow such policy, which would be appreciated and accepted by the public. In the particular case it is highlighted that CSR is also a commitment. It is important to note that the analysis of scientific literature (By Grundey, 2008; Marinescu, Toma, Constantin, 2010; Čaikė, 2011, etc.) showed that CSR is not mandatory – it is a voluntary activity. Therefore, to claim that CSR is a commitment, obligation, or so on, is not subjective, because it shows such formed approach to CSR, when there are no longer a freedom of self-determination for enterprises to be socially responsible or not.

Table 1

Definitions of CSR

| Author | Definitions |
|---|---|
| R. D. Hay, E. R. Gray, J. E. Gates (1976) | CSR is a requirement for the enterprise to make certain decisions and commit their various kinds of resources for the following areas: pollution, discrimination problems, consumerism and for other social problematic areas. |
| A. B. Carrol (1979) | CSR is the engagement to the economic, legal, ethical and discretionary expectations which the society provides for company at a certain period. |
| A. McWilliams, D. Siegel (2001) | CSR is those actions that perform to further some social good, above the enterprise and social obligations which are required by the law. |
| S. A. Aaronson (2003) | CSR is a business solution that includes ethical behaviour, compliance with legal requirements, and respect for people, communities and the environment. |
| Commission of European Community (2006) | CSR is a concept whereby companies integrate social and environmental issues in their business operations and in their interaction with stakeholders. |
| I. Kleinaitė (2007) | CSR is the practical application of the sustainable development principles in activities of enterprises. |
| G. Mankelow, A. Quazi (2007) | CSR is defined as the improvement quality of life in such a way that is good not only for business but also for the society. |
| J. Ruževičius, D. Serafinas (2007) | CSR is assurance of business success of the organization, by involving a wide range of social and environmental issues in their activities. |
| D. Grundey (2008) | CSR is a voluntary, not determined by laws commitment of business organizations to all its activities take and combine their interests with consumers, employees, the shareholders, the environment, their communities and other stakeholder’s interests. |

| | |
|---|---|
| Lithuanian Ministry of Social Security and Labor (2008) | CSR is the policies and practices of the corporate, when, they are in accordance with the laws and international agreements, agreed norms of behaviour voluntarily integrate social, environmental and transparent business principles in their internal processes and external relationships and together with the voluntary and public sector partners looking for innovative systemic social, environmental and broader economic well-being solutions. |
| R. Pučėtaītė (2009) | CSR is the activity of the organization, which is beyond legal requirements and includes not only economic aspects for usual business, but also social and environmental aspects and bring contribution to the assurance of the sustainable development of which is influenced by the environment and enhance the quality of life value to society. |
| D. Bagdonienė, E. Paulavičienė (2010) | CSR is a broad-spectrum process, which includes production or development cycle of the entire product or service and related environmental, social, financial and ethical aspects. |
| S. Čaikė (2011) | CSR is a voluntary decision of the company to engage in ethical conduct which (in accordance with legislative standards) helps to solve not only social, but also environmental issues with regard to its activities and concerns of stakeholder. |

Most often found CSR definitions, which specify what issues should solve the social responsibility of the company, i.e. in some authors papers (Commission of European Community, 2006; by Ruževičius, Serafinas, 2007; Banarjee, 2008; Lithuanian Ministry of Social Security and Labor, 2008) are stated that CSR include social and environmental problems in its activities (see Table 1). R. D. Hay, E. R. Gray, J. E. Gates (1976) do not mention environments directly, but simply indicate areas for which socially responsible company should pay attention. However, it is seen from the context (see Table 1), that the mentioned areas are related to the social and environmental problems.

Publication of The United Nations Development Program (2007) presents this definition of CSR: CSR – is the contribution of the company to sustainable development, which includes economic growth, social development and environmental protection. So there are emphasized social and environmental issues too, highlighting economic issues, and also include sustainable development. Meanwhile I. Kleinaītė (2007), by defining the concept of CSR, mentions just sustainable development, and R. Pučėtaītė (2009) in the CSR definition includes not only the sustainable development, economic, social and environmental issues, but also legal issues (see Table 1). However, in order to better understand the definitions of mentioned authors (Kleinaītė, 2007; The United Nations Development Paper, 2007; Pučėtaītė, 2009), it is needed to define sustainable development concept too. Therefore, these definitions are not sufficiently detailed and clear. The analysis of various papers (Carroll, 1979; Aaronson 2003; Čaikė, 2011) showed that these authors, like R. Pučėtaītė (2009), also include compliance of the law in the definition of CSR (see Table 1). Besides, authors (Carroll, 1979; Aaronson 2003; Bagdonienė, Paulavičienė, 2010; Čaikė, 2011) further states, that ethical issues also should be included in the concept of CSR (see Table 1). M. Kilcullen, J. O. Kooistra (1999) associate CSR only with compliance of the law – they state, that CSR is the degree of moral obligation that may be assigned to organizations beyond simple obedience to the laws of the state. However, analysis of the scientific literature (McWilliams, Siegel, 2001; McGuire, 1963; Banarjee, 2008, etc.) showed that there are conflicts about inclusion of legal issues (for example, compliance of the

law) in the definition of CSR. A. McWilliams and D. Siegel (2001), S. B. Banerjee (2008) notes, that organization, which is complying with the laws, can not yet be called socially responsible. J. W. McGuire (1963) supports this idea, because he arguing that social, environmental issues should not be governed by the laws of obligations. J. W. McGuire (1963) points out, that CSR occurs, when enterprise has not only economic and legal obligations, but also certain responsibilities to society. Only compliance of the legislation, which governs ethical, environmental, social and economic issues do not mean, that an enterprise complies with CSR, because CSR go beyond legal requirements.

In summary it can be said, that there is no consensus on a commonly accepted definition of CSR – in scientific literature is founded many different and complementary definitions of this term. The most common aspects, which are founded in definitions of CSR, are following: social, economic, ethical, environmental and voluntary aspects. Analysis of various sources allows to summarize and define CSR as voluntary decision of enterprise to engage in socially responsible activities, when not only comply with the law, economic goals, but also voluntary are included ethical, social and environmental issues in their work and in their interaction with stakeholders, which occurs due to the mutual benefit of both the enterprise and all of its stakeholders. It is important to note that not all the authors agree with the ideas of CSR – there are critics, who express their negative views on CSR by saying, for example, that it is not useful or necessary for the enterprise, which may impede the development of CSR.

Limitations and peculiarities of CSR in EU countries

The analysis of the limitations of CSR in the EU enterprises, it is appropriate to select the countries for which the results will be delivered. Limitations of CSR in Lithuania (one of the EU countries) will be examined separately. This part will introduce limitations of CSR in the rest 26 countries of EU: Ireland, Austria, Belgium, Bulgaria, Czech Republic, Denmark, Estonia, Greece, Spain, Italy, United Kingdom, Cyprus, Latvia, Poland, Luxembourg, Malta, Netherlands, Portugal, France, Romania, Slovakia, Slovenia, Finland, Sweden, Hungary and Germany.

C. Friesl, I. Deuerlein, S. Riedel, F. Pomper (2003) conducted a study in 243 Austrian companies and found that the main limitations of CSR is the lack of financial resources, low or uncertain benefits of CSR activities and lack of time.

P. Mazurkiewicz, R. Crown, V. Bartelli (2005) performed a study in various countries ordered by the World Bank, i.e. carried out a survey in Estonian, Latvian, Lithuanian enterprises. Also they studied Hungarian, Polish and Slovak enterprises (Mazurkiewicz, Crown, Bartelli, 2005) as well as Bulgaria, Croatia and Romania (Mazurkiewicz, Crown, Bartelli, 2005). After reviewing the results, it can be said, that the main limitations of CSR in Poland, Slovakia and Bulgaria match. The main are: no appropriate regulation (respectively 48%, 52%, 54%), overall cost (respectively 38%, 52%, 42%), no link to financial success (respectively 36%, 36%, 34%). No appropriate regulation, overall cost (respectively 58%, 54%) is also one of the main limitations of CSR in Romania. However, highlights that the CSR is limited, because there is approach that there are no visible results (34%). Meanwhile, O. Popa (2012) study in 15 small and medium-sized enterprises in Romania revealed these following main limitations of CSR: the lack of budget for social practices (28%), economic recession (23%) and decisions are taken at top management level (18%). The lack of time (15%), the view that CSR is not useful for the enterprise (13%), and lack of information about CSR (3%) are also one of the limitations.

P. Mazurkiewicz et al. (2005) points out that in Hungary, as well as one of the most important limitations is the fact that there is no appropriate regulation (38%), but after this limitation, follows another: focus on short term gains (32%), and no visible results (32%). The main limitations of CSR in Latvia and Estonia are overall cost (respectively 48%, 54%). Also in Latvia an important limitation is the fact, that there is no government involvement (34%), and as in other countries, no appropriate regulation (30%). Meanwhile in Estonia comes to light following limitations: an approach that CSR does not guarantee financial success (42%) and focus on short term gains (38%). T. Noorkõiv (2004) studied 50 companies from Estonia and specifically named, what prevents the uptake of CSR amongst enterprises – it is lack of financial resources (70%), lack of time resources (60%). Author also added that others limitations are: lack of human resources and approach that CSR is not a business affair.

J. S. Arlbjorn, B. Warming-Rasmussen, D. van Liempd, O. S. Mikkelsen (2008) conducted ordered study about CSR in these EU countries: Belgium, Denmark, Germany, Ireland, the Netherlands, Slovenia, United Kingdom and found that the main limitations of CSR are similar in all these mentioned countries, i.e. following limitations are: enterprises are not ready to CSR, it is too difficult to control CSR for enterprises, lack of human resources, lack of management commitment and lack of financial resources.

However, it was done other researches, which determine the limitations slightly different. For example, L. Sweeney (2007) examined 13 Irish enterprises and

found that the main limitation for small businesses is lack of financial resources. H. Jenkins (2006) study in the UK showed that the main limitations is lack of time, lack of resources and the fact that workers are not included in the implementation of CSR.

Many research of CSR conducted in Italy. A. Tencati, F. Perrini, S. Pogutz (2004) investigated 95 Italian firms and found that the main limitations of CSR is the lack of time (61%), lack of suitable staff (54%), lack of financial resource (38%), and do not clear the concept of CSR (31%). Similar limitations identified M. Longo, M. Mura, A. Bonoli (2005), who found that the main limitations of CSR between 62 Italian small and medium-sized enterprises are lack of time (43%), high costs (21%), lack of return in enterprises terms (not useful) (21%). However, as the main limitations of CSR in Italy, can be identified by other authors carried out the study, as were investigated in much more enterprises. F. Perrini, S. Pogutz, A. Tencati (2006) conducted a study on 395 Italian companies and highlighted these following limitations of CSR: lack of time (61%), lack of human resources (61%), lack of financial resources (38%), there is little known about CSR (31%).

L. Garay, X. Font (2011) survey results from Spain (394 companies) showed that in this country is this limitation of CSR: the lack of budget (76%), i.e. believed that CSR increases the costs or investment without short return.

E. Olsson (2011) conducted a study in 89 Swedish enterprises and identified these limitations of CSR: no time (67%), too complex (57%), lack of knowledge (53%), too expensive (55%).

S. Hakala (2012) study in 80 Sweden enterprises revealed that main limitations of CSR are: the lack of time (37%), lack of money (27%).

Another study ordered by the European Commission in 2002 showed that in Portuguese enterprises occurs these limitations of CSR: the lack of awareness (especially among smaller firms) (24%), lack of time (19%), an approach that CSR has no connection with the activities of the enterprise (17%) lack of financial resources (especially smaller companies) (17%) (The Observatory of European SMEs, 2002). M. Santos (2011) carried out the survey in Portuguese enterprises and found that the biggest limitations of CSR these: lack of time (56%), lack of information (54%) and lack of financial resources (42%).

J.C. Dupuis, N. Haned, C. Le Bas (2006) studied 214 French enterprises and identified these following limitations of CSR – focus on economic survival (63%) and lack of time (56%). S. Berger-Douce (2008) conducted a study in 138 enterprises in France and identified the main limitation of CSR: lack of time (52%). The focus on economic survival has also been mentioned as one of the limitations of CSR, but not between the main (fewer respondents chose this answer) (21%).

G. Christofidou-Solomonidou (2012) in Cyprus survey results (130 enterprises) revealed that the country has these following limitations of CSR: the current economic situation (40%), enterprise size (32%), economic crisis (28%) and government indifference (24%).

N. Zita (2007) summarizing the survey results of 13 Maltese enterprises found, that those limitations of CSR occurring: CSR is not a priority for enterprises, most managers have not heard about CSR, which shows that CSR is not discussed in companies and may mean that CSR is not important for buyers.

N. Poussing (2008) questioned 1399 employees of various enterprises in Luxembourg and found that the main limitation of CSR is that majority do not know what CSR is and what it means (79%). J. F. Champigny, M. Saluzzi, P. Goetzinger, L. Rouach B. Renders (2010) in Luxembourg sustainability annual report presented their results of study of 64 enterprises from Luxembourg. They identified following main limitations of CSR: lack of reliable tools to implement CSR and lack of information. Furthermore, most of the enterprises leaders complain about the lack of efficient systems to assess the actual costs and benefits as a result of sustainability initiatives, which could serve as a basis for investment decisions.

M. Dinga (2007), who is representative of Business leader forum (BLF), presented results of supported project by the European Social Fund, which highlighted the following limitations of CSR in 37 Czech enterprises: bureaucracy and a lack of time. Another representative of BLF L. Záhorská (2012) presented surveys results of CSR conducted in 2008 and 2012 in Czech Republic. In 2008 study of 32 Czech enterprises showed, that the main limitations of CSR are: lack of support from the government, lack of time, lack of qualified personnel, lack of recognition of enterprises, that CSR activities are needed, a large bureaucracy. Meanwhile study in 2012 (30 Czech enterprises) revealed a slightly different result, i.e., there are these limitations of CSR: indifferent governance of enterprises, lack of qualified personnel, a large bureaucracy, lack of time, lack of support from the government.

K. M. Tzivara (2007) conducted a study and highlighted these following limitations of CSR in Greece: corruption, bureaucracy, lack of incentives and motives for enterprises from state, lack of understanding of the meaning of volunteering. Meanwhile, more recent studies by G. Giannarakio, N. Litical, I. Theotokos (2009) in 74 enterprises reveals these limitations of CSR: CSR is unclear, lack of time, lack of financial resources and lack of human resources.

A review of various authors (Friesl, Deuerlein, Riedel, Pomper, 2003; Noorköiv, 2004; Tencati, Perrini, Pogutz, 2004; Longo, Mura, Bonoli, 2005; Mazurkiewicz, Crown, Bartelli, 2005; Dupuis, Haned, Le Bas, 2006; Jenkins, 2006; Perrini, Pogutz, Tencati, 2006; Dinga, 2007; Sweeney, 2007; Tzivara, 2007; Zita, 2007; Arlbjorn, Warming-Rasmussen, van Liempd, Mikkelsen, 2008; Berger-Douce, 2008; Poussing, 2008; Giannarakio, Litino, Theotoko, 2009; Champigny, Saluzzi, Goetzinger, Rouach, Renders, 2010; Garay, Font, 2011; Olsson, 2011; Santos, 2011; Christofidou-Solomonidou, 2012; Hakala, 2012; Popa, 2012; Záhorská, 2012) results of studies, it can be said, that usually occurs the same limitations of CSR regardless of the country. Identifies main limitations of CSR faced by EU enterprises - the main limitations are presented in order of priority (see Figure 1).

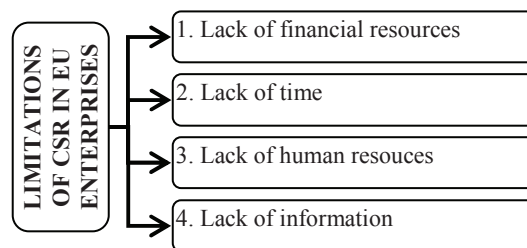


Figure 1. Limitations of CSR in EU enterprises

Among the major limitations of CSR is various lacks of resources (financial, time, human and information). The concretization of these limitations emphasizes the significance of each of them and reveal which are the most important, i.e. lack of time. It is important to note that in Czech Republic and Greece among one of the most important limitations are also mentioned bureaucracy, and in Greece – also corruption. It is possible to implement CSR in these countries only then, when all these major limitations will be successfully removed or at least a reduced.

Limitations and peculiarities of CSR in Lithuania

Analysis of the current state of implementation of CSR in Lithuanian enterprises, it is appropriate to highlight the most important results of the investigations. A review of various authors (Mazurkiewicz et al., 2005; Ruževičius, Navickaitė, 2006; APEX LEGAL, 2007; The baseline study of the corporate social responsibility practices in Lithuania, 2007; Vogulytė, 2007; Čepinskis, Sakalauskaitė, 2009; Česynienė, Neverkevič, 2009; Kovaliov, Snieska, Simanavičius, 2009; Pučėtaitė, 2009; Bernatonytė, Vilkė, Keizerienė, 2009; Špukienės, Špukaitės, Urbonienės, 2009; Štreimikienė, Pušinaitė, 2009; Mačys, Vijeikis, 2010; Sustainability and social responsibility through learning in small and medium-sized enterprises, 2010; Šimanskienė, Paužuolienė, 2010; Česynienė, Diskienė, 2011) conducted studies in Lithuania, it was noted that in Lithuania before the economic recession there was very little scientific articles about CSR. Researches carried out in Lithuania also founded only a few, but most of them – was ordered by, i.e. Ministry of Social Security and Labor, or supported by the EU and other institutions. Meanwhile, when economic recession started – from that period until now there are found in conducted various studies on CSR by initiative of scientists. However, significant differences (before the economic recession and after it began) was not detected, therefore limitations of CSR will not be separate between the different periods.

P. Mazurkiewicz et al. (2005) results of survey (survey of 80 Lithuanian enterprises) have shown that Lithuanian companies believe that the main limitations is the lack of appropriate regulation (41%), overall cost (39%), no link to financial success (34%) and the fact that the respondents thought, that there are no visible results (30%). Similar results show J. Ruževičius, V. Navickaitės (2006) study, where he examined 14 socially responsible enterprises. Mentioned author's found that the most successful implementation of CSR dented the time and other resources, the lack of attention from

government and its institutions, and the lack of financial success (29% for all).

In summary V. Vogulytė (2007) presented results of study “Social responsibility trends among small and medium-sized enterprises”, it can be said that there exists negative attitude about CSR towards business representations as the enterprise losses. This study (as well as others) shown that the majority of small and medium-sized enterprises do not implement in socially responsible activities for a lack of resources (financial resources, human resources, time, etc.) (83%). Other limitations that have been identified – this intense regulation (51%), lack of knowledge about benefits of CSR to business (44%), lack of awareness of social responsibility (42%), an approach that is not worth implementing CSR in their enterprise (26%) or do not implement CSR because it is not obligatory (23%).

The baseline study of Corporate social responsibility practices in Lithuania (2007), carried out in companies JSC “Deva”, JSC “Sanga”, JSC “Mėta” revealed that, according to these enterprises, fragmented perception about CSR limit the development of CSR, limited opportunities to exchange of experience, lack of specialists in CSR, civic inactivity, lack of strong trade unions and consumer and non-governmental organizations. Besides, enterprises (especially small and medium-sized) think that CSR is expensive process, without any real benefit. It is important to mention that enterprise JSC “Mėta” is also facing with other difficulties, such as, it is not always possible to obtain sufficient organic materials.

Analysis “Lithuanian legal framework for the analysis of the corporate social responsibility of promoting and hindering factors” (2007), which was made by lawyer’s office Apex legal, the main conclusion is slightly different: the lack of a coordinated, clear long-term policy of CSR (which allows analyzing the efficiency of changes in legislation) limits the development of CSR.

Also, researchers point out that in order to promote CSR is needed “one-stop-shop” principle managed comprehensive, consistent information about position of state on CSR issues, which would include all sectors and public institutions. Also there is lack of current and future measures, examples of best practices, methodologies how to integrate CSR into business strategy, information and other assistance. No organizational skills and inactivity of employees can be characterized as a reason, as well as preventing the development of CSR. It is important to mention, that are many existing initiatives in the field of CSR, but for successful implementation lack information and publicity for companies or other entities (such as sustainable public procurement performance).

In 2007, research conducted in 64 public sector enterprises showed that the main limitations of CSR are: lack of information and knowledge (60%), lack of financial resources (34%) and the attitude that is lack of CSR benefits (6%) (Štreimikienė, Pušinaite, 2009).

In 2008-2010 was prepared project “Sustainability and social responsibility through learning in small and medium-sized enterprises (SVI)” (SOCIALSME), whose

main goal – to develop an innovative methodology oriented to the development of social responsibility in small and medium-sized European enterprises (SMEs). In 2009 in march the first conclusion of this project were presented: project showed that the core principles of CSR implementation problems of Lithuanian SMEs in the economic recession is the loss of profits and market share, increasing taxes, decrease in investments in corporate activities. Similar results showed another study. D. Bernatonytė et al. (2009) conducted a study in 91 Lithuanian enterprises and found that the majority of companies focus on the survival and loss reduction, rather than the social responsibility activities of the provisions of the consolidation (96%). However, the difference is that the limitations associated with employees, i.e. more than half of the respondents stated that in the economic recession the interests of employees were neglected by enterprises (60%).

Meanwhile, study by R. Česnyienė, M. Neverkevič (2009) showed different results. According these authors, the main limitations that limit development of CSR is the inability to understand CSR as potentially increasing the value of the enterprise (86%) inability to understand that CSR can promote long-term profits (86%), inconsistent approach to CSR (78%), lack of long-term vision and strategic approach (74%). It can be argued that these limitations of CSR are closely related to the previously mentioned, whereas these limitations most often lead to situation, when enterprises do not focus on CSR implementation.

According to R. Špukienė, K. Špukaitė, L. Urbonienė (2009) results of survey, it can be seen, that nearly half of respondents did not know what CSR is and rarely mention CSR in enterprises (44%). It can be argued that this is partly due to the fact that rarely or at all does not organize educative trainings, meetings, debates about CSR. It was also noted that most enterprises ignore social responsibility by discriminating employees (70%) and they feel unable to contribute to the achievement of CSR because they believe that it is only matter of managers or business owners. Similar results reveal and R. Pučėtaitė (2009) study, which showed that the enterprise does not pay enough attention to their workers' education on CSR and ethical management issues (45%), not all employees are treated fairly and honestly. Lack of information as one of limitations of CSR revealed R. Kovaliov et al. (2009) study too, which showed that the main limitations that limit introduction of CSR are: ignorance of what CSR is (42%), lack of information about principles of CSR and benefits of CSR (77%). However, these authors found and other limitations i.e. lack of financial, human and time resources (60%).

Study made by J. Čepinskis, E. Sakalauskaitė (2009) showed, that limitations of CSR linked to the economic recession. Authors identified such limitations as: needs of society do not care for enterprises (100%). More than half of socially responsible enterprises noted that the economic recession is forcing them to reduce funding for social programs (63%), because it do decline financial resources. Also enterprises did not accept the argument that CSR is an opportunity for enterprises to survive the economic recession (63%). L. Šimanskienė, J.

Paužuolienė (2010) complements the list of limitations of CSR in Lithuania, i.e. authors distinguish the main limitations: enterprises do not comply all principles of social responsibility standard (50%), superficial approach to CSR (58%), lack of strategic plan (56%), CSR “lowering downhill from the top”, when do not all employees participate in implementing CSR (56%), lack of long-term vision (46%).

G. Mačys, J. Vijeikis (2010) between analyzed 300 enterprises identified the main limitations of CSR such as: a lack of resources and an increase in costs (58%), hostility of managers (17%) and employees (13%). R. Česnyienė, D. Diskienė (2011) examined 54 enterprises and identified the following limitations of the private sector: unfavorable policy of state, lack of information about benefits of socially responsible behavior, lack of financial resources, subjective approach of management, lack of long-term vision, fear of changes, misunderstanding that CSR is needed.

A review of studies carried out by various authors, where identified limitations of CSR, it can be said that usually are the same limitations before implementation of CSR and when it is already implemented. CSR can be divided into major limitations faced by the Lithuanian enterprises. The main limitations are presented in order of priority (see Figure 2).

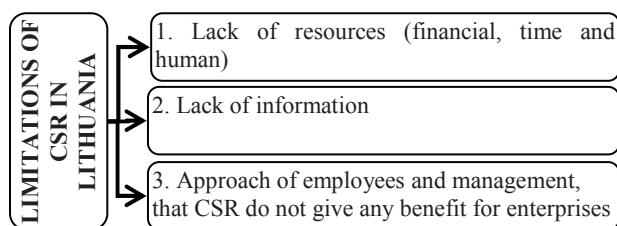


Figure 2. Limitations of CSR in Lithuania

CSR before the economic recession (in 2008) still spread in Lithuania, so there was too little materials and practical examples, and so on - there was a lack of information about CSR. However, this limitation is particularly important, because it can lead to a fragmented understanding of CSR, prevent development of CSR and so on. It is important to highlight the fact that this limitation is important, because it was revealed by the various studies. But it is difficult to accept this fact (this limitation), because there can be found lots of information about CSR. Also there are available many practical examples of how to implement CSR. It can be argued, that the lack of information is established during an economic recession, because there is a lack most of employees or managers initiatives to interest in CSR.

Most of the surveyed companies said that there is no way to measure the benefits of CSR activities. According to them, socially responsible business benefits can not be immediately felt. Some of the managers also indicated that money for certain social responsibility activities never come back, sometimes it even unprofitable, for example, support for sports teams, cultural events or for children's home financial not recouped. However, users can evaluate various types of supports and to choose the enterprise's products or services. Meanwhile overview of what resources are most

needed – identified that financial, time and human (lack of experience of employees).

Limitations of CSR in EU and Lithuania – and their solutions

According to researches of various authors (Friesl et al., 2003; Sweeney, 2007; Vogulytė, 2007; Arlbjorn et al., 2008; Čepinskis, Sakalauskaitė, 2009; Česnyienė, Neverkevič, 2009; Šimanskienė, Paužuolienė, 2010; Garay, Font, 2011; Hakala, 2012, etc.) it can be seen, that manifested similar limitations of CSR between the public and the business sector. It was also noted, that not all authors pointed out that the enterprises (which were investigated) are socially responsible or not – there are not separated. So it can be argued, that these limitations are similar. It is also noted that the size for limitations of CSR in enterprises do not affect and various researches of medium-sized, small and large enterprises – most were analyzed together, without distinguishing between the limitations encountered in the context of enterprise size. The research results of EU and Lithuania countries revealed that there are the same limitations of CSR (it dependency does not originate from the country). This statement confirms researches, which were done in several countries together (Mazurkiewicz, et. al., 2005; Arlbjorn, et. al, 2008) and separately (Dupuis, et al, 2006; Jenkins, 2006; Sweeney, 2007; Čepinskis, Sakalauskaitė, 2009; Garay, Font, 2011; Hakala, 2012, etc.). So implement CSR can various enterprises, regardless of their addiction to certain sector, size, country and so on.

Summarizing the results of the research can be said, that despite all the limitations, the ideas of socially responsible business in Lithuania and EU are constantly expanding. It is important to note that in Lithuania (in contrast to other EU countries), financial, time and human resource constraints often named by simply as a lack of resources, rather than individually showing each of them. In addition, in Lithuania (in contrast to other EU countries), reveals the one major limitations of this CSR which is not included in EU countries – approach of employees and management, that CSR do not give any benefits for enterprises. It is important to note that in Czech Republic and in Greece among one of the most important limitations is also mentioned bureaucracy and in Greece – even corruption.

In order to successful implement CSR in enterprises, it is important to eliminate limitations of CSR or just to try to reduce them. In order to do this, it is just needed to follow some solutions, for example: It can be carried out some more researches of CSR, which demonstrate financial and non-financial benefits of CSR for enterprises and would justify interaction of CSR enterprise results of performance. Meanwhile, Lithuanian companies can also rely on the decisions of other EU countries (how they dealt with limitations of CSR).

Lack of financial resources may be reduce, or even eliminate, by gaining support from a variety of CSR projects in preparation for development of CSR, such as the EU support. In order to eliminate the lack of time – enterprises could hire a particular employee or a team of employees, which would be responsible for the

implementation of CSR. While, in order to reduce the lack of information, it could organize seminars about CSR for managers, employees.

Conclusions

1. Scientific literature allows to state that CSR in enterprise is a voluntary decision of enterprise to engage in socially responsible activities, when not only complying with the law and economic goals, but also by voluntary action to include ethical, social and environmental issues in their work and in their interaction with stakeholders, which occurs due to the mutual benefit of both the enterprise and all of its stakeholders, such as CSR provides a competitive advantage, can help earn more money, protect the environment, to take into account the interests of employees and so on.

2. Based on scientific literature, i.e. examine various studies about CSR in EU enterprises (except Lithuania), it can be said, that the main limitations in order of priority are: lack of financial resources (17-76%), lack of time (15-67%), lack of human resources (54-61%), lack of information (3%-54%).

3. An analysis of scientific literature revealed, that most authors distinguish limitations occurring in Lithuania in order of priority are: lack of resources (29-83%), lack of information (29-77%), approach of employees and management, that CSR do not give any benefits for enterprises (6-58%).

4. Scientific literature revealed that in both – Lithuania and other EU countries exist such limitations as lack of time, lack of financial resources, lack of human resource, lack of information. Meanwhile, a difference is that, in Lithuania also exist these limitations: approach of employees and management that CSR do not give any benefits for enterprises and others limitations, such as lack of time, lack of financial resources, and lack of human resource are in one category – lack of resources.

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In order to eliminate or reduce the limitations of CSR based on the survey results, it is possible to provide the following suggestions:

Necessary to carry out CSR research that demonstrates the financial and non-financial benefits for enterprises and CSR based on the enterprises results of performance interaction to CSR. This would encourage enterprises to take a greater interest in CSR, because there is a lot of information on this topic. There are also many various examples of successful implementation of CSR (AB "Danisco Sugar" AB "Utenos trikotažas", JSC "Ruth", JSC "Biopakas", etc.). Enterprises according to these examples, could successfully implement CSR in their activities. The most obvious problem in Lithuania, is that Lithuanian companies could also rely on the decisions of other EU countries and find out, how they dealt with limitations of CSR.

Lack of financial resources may be reduced, or even eliminated, by gaining support from a variety of CSR projects in preparation for development of CSR, such as the EU support. In this case, the state should more promote these projects or competitions, to achieve greater interest. State could encourage enterprises to implement CSR, by funding part of the cost for social responsibility standard (SA8000) installation.

In order to eliminate the lack of time – enterprises could hire a particular employee or a team of employees, which would be responsible for the implementation of CSR.

In order to reduce the lack of information the seminars should be organised about CSR for managers and employees. Furthermore, during seminars on CSR the representatives of the enterprises (which are socially responsible), would provide more detailed and practical knowledge of how to run CSR. Also, advanced CSR companies could convey their expertise to other companies.

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Daiva Žostautienė, Miglė Baurienė

LIMITATIONS OF THE CORPORATE SOCIAL RESPONSIBILITY: COMPARATIVE ANALYSIS IN EUROPEAN UNION AND LITHUANIA CONTEXT

Summary

The scientific paper is intended to reveal limitations of the corporate social responsibility (CSR) in Lithuania and European Union (EU). New technologies, integration, globalization, increasing consumption, environmental and social problems at present time are very relevant. One of the most effective means for enterprises is implementation of CSR in their activities in order to overcome these challenges. The object of the paper: limitations of corporate social responsibility. The aim of the paper: carry out a comparative analysis of the limitations of CSR in EU and Lithuania context. Research objectives are as follows: 1. Define the concept of CSR, by presenting genesis of CSR. 2. Discuss CSR in EU and highlight limitations. 3. Summarize CSR researches in Lithuania and highlight limitations. 4. Compare limitations of CSR in EU and Lithuania and make recommendations to eliminate them. In order to implement these objectives analysis of scientific literature, comparative analysis, document analyses were used.

Scientific literature allows to state that CSR in enterprise is a voluntary decision of enterprise to engage in socially responsible activities, when not only complying with the law and economic goals, but also by voluntary action to include ethical, social and environmental issues in their work and in their interaction with stakeholders, which occurs due to the mutual benefit of both the enterprise and all of its stakeholders, such as CSR provides a competitive advantage, can help earn more money, protect the environment, to take into account the interests of employees and so on.

Based on scientific literature, i.e. examined various studies about CSR in EU enterprises (except Lithuania), it can be said, that the main limitations in order of priority are: lack of financial resources (17-76%), lack of time (15-67%), lack of human resources (54-61%), lack of information (3-54%). 3. An analysis of scientific literature revealed, that most authors distinguish limitations occurring in Lithuania in order of priority are: lack of resources (29-83%), lack of information (29-77%), approach of employees and management, that CSR do not give any benefits for enterprises (6-58%). Scientific literature revealed that in both – Lithuania and other EU countries exist such limitations as lack of time, lack of financial resources, lack of human resource, lack of information. Meanwhile, a difference is that, in Lithuania also exist these limitations: approach of employees and management that CSR do not give any benefits for enterprises and others limitations, such as lack of time, lack of financial resources, and lack of human resource are in one category – lack of resources.

In order to eliminate or reduce the limitations of CSR based on the survey results, it is possible to provide the following suggestions: Necessary to carry out CSR research that demonstrates the financial and non-financial benefits for enterprises and CSR based on the enterprises results of performance interaction to CSR. The most obvious problem in Lithuania, is that Lithuanian companies could also rely on the decisions of other EU countries and find out, how they dealt with limitations of CSR. Lack of financial resources may be reduced, or even eliminated, by gaining support from a variety of CSR projects in preparation for development of CSR, such as the EU support. In order to eliminate the lack of time – enterprises could hire a particular employee or a team of employees, which would be responsible for the implementation of CSR. While, in order to reduce the lack of information, it should be organize seminars about CSR for managers, employees.

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OBSTACLES FOR INVOLVEMENT OF THE LITHUANIAN HIGHER SCHOOL STUDENTS INTO THE LABOUR MARKET

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Abstract

The situation in the labour market of the European Union (EU) within the past decade revealed the tendency of increase of youth unemployment, exceeding the general level of unemployment, which is the case in Lithuania, too. The higher school students is one of the most sensitive social groups, whose involvement in the labour market is regarded as a complicated and complex problem, which is not sufficiently researched by way of scientific researches.

The article shows that the involvement of higher school students in the labour market is determined by their "social capital" and *internal* (dependent on the individual) as well as *external* (independent of the individual) factors. Quantitative research of the behaviour of Lithuanian higher school students in the labour market revealed the following obstacles for higher school students to join the labour market: unsuccessful job search and the lack of professional experience (internal factors), as well as reluctance of an employer to employ the student and insufficient experience gained during a placement (external factors).

Keywords: labour market, higher school students, employment, involvement in labour market, Lithuania.

JEL Classifications: E24, I25, J24, J6, J64.

Introduction

The recent economic crisis in the European Union countries highlighted the employment issues, particularly, the issue of the Lithuanian youth's involvement into the labour market. The issue of youth's level of unemployment in Lithuania can be recognized and confirmed by comparing its level of the youth unemployment to the average of European Union: in Lithuania, 34.4% of the youth (15-24 years) are unemployed compared to the 22.4% average of the European Union (Eurostat, 2012). The level of unemployment amongst the youth is considerably higher than in any other age category in all observed countries, partly due to the fraction of the youth which has full time studies and partly due to the fraction which combines studies with a part time job. On the other hand, it indicates that the modern higher school students care not only about the profession, selection of the studies program, but also about the employment possibilities after graduation (Martinkus, Neverauskas & Sakalas, 2002). Ergo, even before the graduation, the youth, as potential future employees, is interested in the situation of the labour market and is ready to join it. For students, employment during the time of studies serves not only as additional income to cover the expenses for necessities or leisure, but also as a mean to establish new networks and to gain professional experience, which is needed for the transition from the educational system to the labour market.

The definition of the higher school students used in the working paper refers to the students who are gaining their degree in higher educational institutions

(university or college). In the current dictionary of the Lithuanian language (2006), the higher school students are defined as a person's association to a higher education institution. Therefore, the expressions the higher school students and students of higher educational institutions (universities or colleges) will be used as synonyms.

It is worth mentioning that the involvement of the higher school students into the labour market is dependent on the youth's knowledge and experience, as well as on the latter's relevance to the market environment, in other words, on the youth's accumulated social capital. However, the success of the higher school students can be also dependent on various other effects – from endogenous (personal characteristics, professional proficiency), to exogenous (characteristics of the labour market, peculiarities of the educational system).

Analysis of the social and economic situation of the European higher school students suggest that involvement of the students from higher education is not uncommon: if compared to other countries, the Irish, German, Italian, Portuguese youth is more involved in the labour market (Robotham, 2012). Meanwhile, almost none explicit studies analyzing the Lithuanian higher school students involvement in the labour market have been conducted (Spinter *research*, 2007; Guščinskienė & Čiburienė, 2011), while the ones that were conducted suggest that the majority of the higher school students has low experience in the labour market, and the ones involved in the labour market usually work in a different sphere than their degree specialization.

Therefore, a necessity for a study analysing the behaviour of the higher school students in the labour

market prevails, with a research question being – what are the obstacles for involvement of the Lithuanian higher school students in the labour market?

Object of the research – obstacles for involvement of the higher school students into the labour market.

Purpose of the research – reveal the obstacles for involvement of the higher school students into the labour market.

Methods of the research – analysis of scientific literature, surveys, data analysis.

Assumptions for involvement of the higher school students into the labour market, deterministic reasons

The success of the youth in the labour market can be determined in many ways: from personal characteristics to characteristics of labour market. In order to find the most vital assumptions and factors which explain the involvement into the labour market, it is appropriate to use one of the modern economic concepts – human resource theory, which analyses the problems related to the formation and quality of the labour market. Relating to the fundamental principle of the theory, that the integration into the labour market is directly related with the knowledge and experience, numerous scholars (Thurow, 1970; Aulin, 1992; Symonds, Schwartz & Ferguson, 2011) have revealed the assumptions for integration of different age groups into the labour market: education, qualification and personal virtues. The studies show that recently, the youth started to eagerly seek for education; however the beginning of the work experience for this group is associated with the poor-performing markets. Having a relatively low share of the human capital, i.e. lacking practical experience, the youth is associated with the low-productivity members' group, which requires additional investments if decided to be trained (Beržinskienė & Rudytė, 2008). According to J. Guščinskienė and J. Čiburienė (2011), current Lithuanian employers value the experience of the candidates in the field of studies, good recommendations and good social skills, complex characteristics of the candidates.

Success of the integration is also determined by objective social-demographic characteristics. The most important of them is gender. As women started to actively integrate into the labour market, a lot of scholars started studying the problems of gender inequality in this sphere. A plethora of studies in this sphere suggest that statistically, women on average have a lower job position than men, despite equal education, work experience and other imperative determinants (Public Policy and Management Institute, 2010; Grimshaw & Rubery, 2007). However, the situation during the last recession has changed: the male youth unemployment rate rose above the female rate (Dietrich, 2012). Next to the personal characteristics of the youth, such as education (length of the studies, field of the studies, university, relevance of gained knowledge in the labour market) and experience (work experience and quality; part-time job during studies; working abroad), their success is determined by cyclical demand fluctuations in the labour

markets (Public Policy and Management Institute, 2010) or current business cycle conditions (Bell & Blanchflower, 2010; Contini, 2010; OECD, 2006). The integration into the labour market is easier when the economic situation of the country is good rather than when it is in turmoil.

The integration of the youth into the labour market is affected by different kinds of factors: expansion of services and manufacturing sector, education, motivation to work, health, occupation of relatives, living standards etc. Factors that affect the integration of the youth into the labour market can be distinguished into two groups: exogenous (external) and endogenous (internal). Exogenous factors – factors that are not individual-specific, which he cannot directly regulate and which include common economic, social, demographical, geographical, political (i.e. the opportunities for the youth involvement can be increased via an active governmental policies' enforcement regarding the labour market) variables (Bell & Blanchflower, 2010; Martin, 2009; Dietrich, 2003). Another factor' group – endogenous – individual-specific factors, which he is capable of controlling. Such factors as psychological, partly demographical (i.e. family size, family's stage of a life cycle) and qualitative people's characteristics (i.e. level of education, experience, proficiency, health condition etc.) (Clark, 2011; Abbott, 2010; Doiron & Gørgens, 2008; Hoyer, 2006; Gruževskis & Okunevičiūtė-Neveauskienė, 2005; Hammer, 2003). Therefore, the integration of the youth, as one of the most vulnerable social groups, is determined by both, exogenous (not individual-specific) and endogenous (individual-specific) factors.

Methodology of the study and compilation of the instrument

In order to analyse the obstacles related to the integration of the Lithuanian higher school students into the labour market, a methodology which assesses the involvement of the students from higher education institutions into the labour market has been created, while surveys were the main method to collect data.

Empirical test includes two diagnostic blocks: obstacles for involvement into the labour market and social-demographic characteristics (see Table 1).

The first diagnostic block – obstacles for involvement into the labour market – is created from 2 criterions, revealing internal and external reasons which affect the involvement of the higher school students into the labour market, and 17 statements that the respondents provided from their own experience.

The second diagnostic block – social-demographic characteristics – includes 6 criterions, which were used to reveal the family status, gender, personal income, educational institution, degree and form of the study, employment status, speciality and job position, work connection with the study program.

In order to conduct a survey, a questionnaire for the students from higher education institutions was prepared and it was constructed with respect to the previous studies of the scholars and their results (Aulin,

1992; Abbott, 2010; Repečkienė, Kvedaraitė, & Žvirelienė, 2009; Kvedaraitė, Žvirelienė, & Repečkienė, 2010; Gedmintienė & Ginavičienė, 2011; Guščinskienė & Čiburienė, 2011; Židonis, 2012).

The study was conducted in the period from January, 2013 till May, 2013. 1014 respondents from 7 universities (69 percent of respondents) and 7 non-universities (31 percent of respondents) in Lithuania participated in the survey. The number of observations – 1014 – confirms the characteristics of a general population after taking into account ± 3 % deviation (Dattalo, 2008).

Table 1
Survey on the higher school students

| Criteria | Indicators | Number of indications |
|--|--|-----------------------|
| <i>I. Diagnostic block: obstacles for involvement into the labour market</i> | | |
| 1. Internal factors | | |
| 1.1 General characteristics | Have you ever encountered obstacles while looking for employment? What were the reasons for unsuccessful employment? | 3 |
| 1.2 Individual | Inactive search for a job Unsuccessful search for a job Indecisiveness of the wanted job Lack of self confidence No jobs within reasonable distance Health issues Bringing up infants | 7 |
| 1.3 Profession's preparation | Insufficient education Lack of relevant experience Lack of knowledge of languages | 3 |
| 2. External factors | | |
| 2.1 Labour market | Competition against job-seeking individuals with higher experience Employer's unwillingness to employ a student Impossible to manage studies and part time job at the same time Lack of market demand for the speciality of studies | 4 |
| 2.2 Education (academic) | Lack of experience gained during the internship Lack of proficiency gained during the studies No correlation between the speciality and demanded job | 3 |
| <i>II. Diagnostic block: social-demographic characteristics</i> | | |
| 1. Demographical characteristics | Your family status Your gender Your age | 8 |
| 2. Social characteristics | In which higher education institution do you study? For which degree and in what form are you studying? Are you currently employed? | 15 |

For the analysis of the results, a statistical analysis method was used – descriptive statistics, which was used for the primary processing of the data. Mathematical-statistical analysis was conducted using SPSS 19 for Windows (Statistical Package for Social Sciences) software.

Results and discussion

In researching obstacles for the involvement of higher school students into the labour market, a survey was used to question 1014 Lithuanian higher school (university and college) students. The results of the empirical research showed that slightly more than a third (37 percent) of respondents were involved in the labour market: 32 percent of respondents were employed, while 5 percent had their own business; 28 percent of respondents had experience in the labour market, i.e. had worked/run their own business before and 35 percent had no previous experience. A large 39 percent of respondents from the latter group had encountered employment obstacles, the same percentage (39 percent) had no obstacles and 22 percent – had not looked for employment. Taking that into account and analysing research results, respondents who had not encountered obstacles in employment and had never looked for employment were eliminated from the research sample.

Socio-demographic characteristics of research participants. Socio-demographic characteristics of Lithuanian higher school students are indicated by their distribution by the educational body, study stage and form, marital status, gender and age.

The majority of research respondents were females (27 percent) and 21-24 year old students (31 percent), 27 percent of which went to university and 12 percent – to college. The research consisted of 33 percent of first stage, 5 percent second stage and 0.4 third stage students. The majority of respondents (26 percent) were single, while 19 percent were married.

Obstacles for involvement in the labour market: internal factors. When analysing internal factors for involvement in the labour market by Lithuanian higher school students, the study revealed that 27 percent of university students and 12 percent of college students had encountered these factors. This problem was most apparent amongst first stage higher school students (33 percent), while third stage students had almost never faced this issue (0.4 percent).

After analysing internal factors affecting the transition of higher school students to the labour market, it was found that one of the main reasons why students failed to find employment was personal – unsuccessful job search (15 percent) (see Table 2).

25 percent of university students and 14 percent of college students associate their unemployment with this reason. Another personal factor pointed out by the higher school students as affecting their unemployment was the absence of jobs near their home (12 percent). It was mentioned by 22 percent of university students and 14 percent of college students. It can be assumed that the latter is the major factor leading to the unemployment of higher school students, as it means additional time costs

and financial costs travelling to work. Meanwhile, health issues (1 percent) and having young children (3 percent) hardly affected student employment.

Table 2
Internal factors affecting the unemployment of higher school students (percentage)

| Factors | | Yes | Some what | No |
|-----------------------|---------------------------------|-----|-----------|----|
| Personal factors | Passive job search | 4 | 17 | 18 |
| | Unsuccessful job search | 15 | 16 | 8 |
| | Not knowing what job would | 7 | 14 | 18 |
| | Lack of self-confidence | 5 | 15 | 19 |
| | Absence of jobs nearby | 12 | 13 | 14 |
| | Health issues | 1 | 6 | 32 |
| | Having young children | 3 | 4 | 32 |
| Professional training | Lack of education | 10 | 15 | 14 |
| | Lack of professional | 20 | 14 | 5 |
| | Lack of foreign language skills | 7 | 18 | 14 |

In analysing another endogenous factor affecting employment of higher school students – professional training – it was noted that Lithuanian higher school students lack professional experience (20 percent) and education (10 percent). 38 percent of university students and 16 percent of college students emphasized the lack of professional experience as an important obstacle affecting student employment.

Looking at the results of the empirical research, it can be said that the unemployment of higher school students is mainly affected by the following factors: unsuccessful job search and the absence of jobs nearby (*personal factors*), as well as the lack of professional experience and education (*professional training factors*). These are also emphasized by employers who pay much attention to candidates' professional experience, good recommendations and good social skills. On the other hand, however, only through work can students acquire social and communication, as well as teamwork skills, which they can later apply to any job (Lucas and Lamont, 1998). Nevertheless, transition from the educational system to the labour market remains difficult for Lithuanian higher school students due to the lack of professional experience and education.

Obstacles for involvement in the labour market: external factors. In assessing external factors in Lithuanian higher school students' transition from educational institutions to the labour market, it was found that the reluctance of an employer to employ the student (25 percent) and competition with more experienced job

candidates (24 percent) were the main obstacles for employment identified by the students (see Table 3).

Table 3
External factors affecting the unemployment of higher school students (percentage)

| Factors | | Yes | Some what | No |
|------------------------|---|-----|-----------|----|
| Labour market | Competition with more experienced job seekers | 24 | 10 | 5 |
| | Reluctance of an employer to employ the student | 25 | 10 | 4 |
| | It is not possible to reconcile work and studies | 13 | 18 | 8 |
| | Qualification not meeting labour market demand | 8 | 16 | 15 |
| | Insufficient experience gained during a placement | 4 | 15 | 20 |
| Educational (academic) | Lack of skills acquired during studies | 3 | 15 | 21 |
| | Qualification not meeting the desired job | 6 | 16 | 17 |

According to research data, 44 percent of university students and 22 percent of college students had encountered reluctance to employ by an employer. 42 percent of university students and 20 percent of college students believed that they were competing with more experienced job applicants in the labour market. Meanwhile, only 8 percent of respondents named a qualification not meeting labour market demand as a reason causing the unemployment of higher school students.

In analysing obstacles for student employment, it was noted that one of external factors for student unemployment was the mismatch between their qualification and the desired job (6 percent). The research found that higher school students faced difficulties in placement organization for students. According to research data, insufficient experience gained during a placement is one of the obstacles totally (4 percent) or partially (15 percent) preventing students from employment. It should be noted that the latter had been encountered by 8 percent of university students and 4 percent of college students. Thus, research data suggests that practical training of students during studies is one of the most important organizational issues both in universities and in colleges. It is important that the student is not only satisfied with the studies, but also that his skills gained meet employer's requirements and, as noted in European Commission's communication "Youth on the move" (COM(2010)477), more attention should be given to increasing the ability of higher school students to find employment in their profession. Therefore, particular

attention should be given to proper organization of placements, during which students should be able to gain practical experience to help in their transition from the educational system to the labour market.

Conclusions

The research on the involvement of higher school students in the labour market showed that the fundamental internal (endogenous) reasons for the non-involvement of higher school students in the labour market were unsuccessful job search and the absence of jobs near home (*personal factors*), as well as the lack of professional experience and insufficient education (*professional training factors*). Meanwhile, the main external (exogenous) reasons causing unsuccessful transition of higher school students from academic institutions to the labour market were reluctance to

employ the student and competition with more experienced job seekers (*labour market factors*), as well as the mismatch between the qualification and the desired job, and insufficient experience gained during a placement (*academic factors*). The latter obstacle becomes one of the requirements for educational institutions in seeking to maintain high level of studies and practical learning to facilitate the integration of higher school students in the labour market, since according to Berthelot (1995), first-time job seeking students face far more problems than those who have lost their job.

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Renata Žvirelienė, Nida Kvedaraitė, Aušra Repečkienė, Rasa Glinskienė

OBSTACLES FOR INVOLVEMENT OF THE LITHUANIAN HIGHER SCHOOL STUDENTS INTO THE LABOUR MARKET

Summary

The situation in the labour market of the European Union (EU) within the past decade revealed the tendency of increase of youth unemployment, exceeding the general level of unemployment, which is the case in Lithuania, too. The academic youth is one of the most sensitive social groups, whose involvement in the labour market is regarded as a complicated and complex problem, which is not sufficiently researched by way of scientific researches.

In order to understand what obstacles are most significant for involvement of the academic youth into the labour market, one of the concepts of the modern economy is used – the theory of the human capital. The said theory helps to reveal that the involvement of the academic youth in the labour market depends on their knowledge and skills and their relationship with the environment, in other words, on the accumulated “social capital”. On the other hand, the success of involvement of the academic youth in the labour market can be determined by most various factors: from internal (their personal traits, professional education) to external (systemic particularities of the labour market, education system).

When analysing the social and economic situation of the European academic youth, it has been noted that the participation of students of higher education institutions in the labour market is not a new phenomenon: compared to other EU Member States, the academic youth of Ireland, Germany, Italy, and Portugal is involved in the labour market most. Meanwhile, in Lithuania, most of the academic youth have little experience in the labour market, whereas those who are employed mostly do the work that is not related or is little related to the field of their studies.

Thus, there is a need to research the behaviour of the academic youth in the labour market, raising the following problem: what obstacles does the Lithuanian academic youth meet on the way to its involvement into the labour market?

Object of the research: obstacles for involvement of students of higher education institutions into the labour market.

Purpose of the research: to reveal the obstacles for involvement of the academic youth into the labour market.

Methods of the research: analysis of scientific literature, questionnaire survey, analysis of statistical data.

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