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CONTENTS

Innovative Solutions in Business Management and Sustainable Development of Society

| | |
|---|-----|
| Baiba Aneraude. IMPACT OF INTUITIVE THINKING ON RECRUITMENT..... | 6 |
| Armands Auziņš, Jānis Vanags, Georgs Mote, Helma Jirgena. SUSTAINABLE LAND MANAGEMENT SYSTEM AND INTERRELATION OF ITS ELEMENTS | 14 |
| Ligita Bite, Aina Muška, Dana Bertašus. ANALYSIS OF THE FACTORS IMPACTING THE CONSUMPTION AND PRICE OF BREAD IN LATVIA | 29 |
| Irena Stanislava Bajūriene, Česlovas Christauskas, Aušra Pievaitiene. ICT AND COOPERATION BETWEEN NGOS AND UNIVERSITIES IS A POSSIBILITY TO BECOME SOCIALLY MORE ACTIVE | 47 |
| Ieva Brence. WORKPLACES WITH STIPEND PROGRAMME IN LATVIA – SUSTAINABLE SOLUTION FOR PERSONS’ INTEGRATION INTO LABOUR MARKET | 57 |
| Baiba Brigmane. CONTINUING ADULT EDUCATION AND THE VALUE OF INNOVATIVE LEARNING | 65 |
| Inese Dāvidsone. ROLE OF MONEY AND WELFARE IN SOCIAL DEVELOPMENT | 77 |
| Ieva Dmitričenko. MARKETING AND POLITICS | 95 |
| Ilona Dubra. INNOVATION AS A NEW BUSINESS PHILOSOPHY | 103 |
| Arkady Grishin, Elena Sibalova. FOREIGN EXPERIENCE OF CLUSTER FUNCTIONING IN eu COUNTRIES | 116 |
| Ingūna Gulbe, Juris Hāzners. EVALUATION OF THE EXISTING AND POTENTIAL LATVIAN CHEESE EXPORT MARKETS | 135 |
| Giedrius Kaminskas, Edverdas Vaclovas Bartkus. IMPORTANCE OF AGE AND SEX TO INTERACTION BETWEEN LEADER AND FOLLOWERS | 145 |
| Staņislavs Keišs, Dainis Bramanis. LATVIAN REGIONAL DEVELOPMENT IN THE CONTEXT OF GLOBAL ECONOMY | 160 |
| Ligita Melece, Dina Popluga. INNOVATION FOR SUSTAINABILITY: DEVELOPMENT OF RURAL TOURISM IN LATVIA | 181 |
| Boriss Melnikas. KNOWLEDGE-BASED SOCIETY: SUSTAINABLE DEVELOPMENT | 195 |

| | |
|--|-----|
| Baiba Rivža, Tatjana Volkova, Veronika Bikse. KNOWLEDGE AND CREATIVITY AS A DRIVING FORCE FOR THE INNOVATION ECONOMY | 216 |
| Alla Serjogina, Staņislavs Keišs, Viktorija Belihina. THE FACTORAL ANALYSIS OF PROCESSES OF MERGERS AND ABSORPTION IN LATVIA | 227 |
| Žanete Tauriņa. NEW CHALLENGES IN SCHOOL MANAGEMENT IN LATVIA IN THE 21 st CENTURY | 239 |
| Jānis Vanags, Ilona Butane, Geors Mote, Helma Jirgena. THE SOCIAL ASPECTS OF SUSTAINABLE DEVELOPMENT WITHIN THE LIMITATIONS OF FUNCTIONAL NEEDS AND SYSTEMIC APPROACH | 251 |
| Jānis Vanags, Helma Jirgena, Māris Grīnbergs, Armands Auziņš, Jurijs Grizāns. PRECONDITIONS OF THE BIODIVERSITY PROTECTION IN THE CONTEXT OF INTERACTION DEVELOPMENT BETWEEN URBAN AND RURAL AREAS IN LATVIA | 269 |
| Jānis Vanags, Georgs Mote, Helma Jirgena, Jurijs Grizāns. ASSESSMENT CONFORMITY OF CONSTRUCTION SUSTAINABILITY IN VARIOUS PHASES OF BUSINESS CYCLE | 286 |
| Velga Vēvere. SCIENCE COMMUNICATION MANAGEMENT IN LATVIA .. | 300 |

Quality Enhancement in Translation and Interpretation sector

| | |
|--|-----|
| Dzintars Brīvulis. PROBLEMS OF LANGUAGE DEVELOPMENT DURING THE PROCESS OF EDUCATION ARISEN BY THE USE OF PC | 310 |
| Gatis Dilāns. RECONSTRUCTING SIMULATION: ACCESS TO HIGH-SCHOOL SCIENCE DISCOURSE THROUGH REPOSE-FOCUSED PARTICIPATORY DIALOGUE | 317 |
| Guntars Dreijers. QUALITY ASPECTS OF BAUDELAIRE'S POETRY IN ENGLISH TRANSLATIONS | 326 |
| Dzintra Paegle. NOTES ON THE LANGUAGE OF TRANSLATION OF CRIME NOVEL "BLOW FLY" BY P. CORNWELL TRANSLATED FROM ENGLISH BY L. BLUMBERGA | 335 |
| Jānis Sīlis. EMPLOYMENT OPPORTUNITIES OF THE GRADUATES OF TRANSLATOR/INTERPRETER TRAINING PROGRAMMES: THE CASE OF VENTSPILS UNIVERSITY COLLEGE | 342 |

**Innovative Solutions in Business Management
and Sustainable Development of Society**

IMPACT OF INTUITIVE THINKING ON RECRUITMENT

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Abstract

The scientific article reviews issues relating to the business owners' and managers' decision-making mechanisms and the problems faced by managers when making a choice between a rational or irrational decision-making mechanisms. What to do in situations where a choice must be made? The man is a rational machine, so there is a problem – how to assess the possible consequences of the decision. The scientific paper will analyze examples of S. and M. Plousa Gladvella studies, will compile and analyze examples of intuitive thinking applications in the decision-making and the cases or circumstances where it is not desirable to use or rely on the actors' experience, intuition in decision-making. As well as analysis of middle management decisions for businesses and explores the possible consequences of the decision. It should be noted that despite the difficulties in making decisions and evaluating the potential impact of business owners and executives, however, they are very successful in making decisions for enterprises, to organize their work, the selection of employees. The scientific paper analyzes a number of authors and suggestions for staff selecting and organizing interviews to carry out a successful job interview and get the best results, as well as get the most objective candidate assessment. The best results can be obtained, if there are several methods combined and used in intuitive thinking, because each method has its own separate positive and negative sides, but the creation of a set makes it possible to obtain an objective assessment of the candidate's results and select the best candidate.

Keywords: *decision making, corporate governance, intuitive thinking, employee selection, employee motivation, strategic management.*

The Notion of Intuition

The term “Intuition” is derived from the Latin “intueri” meaning to look at, look in. The Middle Age “intuitio” denotes the modern explanation of this word – inspiration, inkling. By this word a direct internal perception or an image of an inspiration is meant.

There is convincing evidence acquired about the existence of the unified field of consciousness that includes all of us regardless of our age, profession, sex etc. It unites people throughout the ages and is related to universal types of thinking of humanity – it

is a unified mental foundation, huge potential of knowledge and experience. Intuitive ability on the direct links of our consciousness to this unified field of consciousness. (Teperveins 1999:42)

The intuitive ability is concentrated in the right cerebral hemisphere, which is called the mute hemisphere as it does not verbalize or articulate its operation. The left cerebral hemisphere coordinates the logical thinking. If both cerebral hemispheres are employed simultaneously, amazing success can be gained. The perception of the momentary reality takes place regardless of the logical thinking and consciousness. Kurt Teperwein writes: "Very often intuition manifests itself when the logical thinking is not working..." (Teperveins 1999:40)

The right hemisphere is the intuitive hemisphere that visualizes and perceives things as one entirety. It can evaluate art and music, a worship service, rituals, mysticism and our feelings. This cerebral hemisphere that reconstructs the whole picture from separate details provides grounds for new ideas and concepts. Such thinking is called holistic, intuitive and metaphoric by Philip Cartner and Ken Russell. (Cartner & Russell 2004:17)

Process and types of decision making

Managers and owners of companies can choose their own ways decision making – matrices, decision trees, data processing and analysis, intuitive thinking. The process of decision making consists of:

- defining the problem or target;
- summarizing the necessary information;
- evaluation;
- choice;
- repeated evaluation.

The first step is defining the problem that we are trying to solve or the target that we want to reach. By determining the essence of problem or target we can take a definite decision and establish whether the decision we have taken solves the problem or reaches the target.

Now when the problem is well-defined, it is possible to determine what information is needed for solving the problem or reaching the target. Besides, it is necessary to find it out what type of information is actually available. As soon as the available information is summarized, it needs to be evaluated by determining the expediency of the new information by comparing it with the existing knowledge.

The evaluation stage includes determining several possible decisions.

Then "the moment of truth" follows when one of the possible decisions has to be chosen. To do this all the relevant information has to be evaluated and considered.

To take a decision it is necessary:

- to foresee the result of the decision;
- to check whether the result corresponds to the set target and the possible solution to the problem.

The last step is to repeatedly evaluate the decision when it is already implemented. This will determine whether the decision is taken correctly or not, and which alternative decision has to be applied if the set target is not reached. There are several types of decision making:

- rational decisions – a choice made with a help of an analytic process;
- decisions based on judgements – a choice made on the basis of knowledge or previous experience;
- intuitive decisions – a choice made on the basis of feel.

There is no such possibility that the decision making will not depend on the existing situation. All decisions we make and our conclusions are based on the fact how we see and understand the world. (Plous 1993:18)

What is the power of intuition – momentary perception or as without analysis and consideration? Supporters of the “intuitive management” think that we should rely on our premonitions. When formulating our presumptions about the others, they believe we should “listen into illogic conclusions” that come from the right cerebral hemisphere. When recruiting or firing somebody or investing the finances, the person needs to listen to his or her inner self. (Myers 2002:209)

Types and paradoxes of intuition

It is a practice to differentiate several types of intuition, for example, the social intuition, the economic intuition, etc. The social intuition is necessary for several categories of specialists, primarily, for attachés and doctors. The economic intuition is mainly practical for managers working in the sphere of business. Several studies show that the economic intuition is rather dangerous and if relying on it is possible to lose as well. Sometimes people who take their decisions on the basis of intuition have a willingness to overrate their expertise, but in case of failure they try to shift the blame on somebody else or coincidence of unrelated circumstances that resulted in losses. David G. Myers, the psychology professor at the Michigan University, the author of book “Intuition”, has advised on the term “the sixth sense”. One of the main ideas of the book is to show that intuition is a dangerous and indeterminate instrument that can cause material and moral damages if used unskilfully. The professor believes that sometimes the intuition works correctly. For example, many people understand the thinking of others intuitively by watching the facial expression of the partner of communication. However, only a few can intuitively predict the result of the football game. Thanks to the mass media, information about an air crash is distributed very fast

and in detail; however, the majority of people see an airplane as the safest and fastest type of transport and do not give up using it. In this case the human intuition does not work as the memories are trusted less than it would be necessary. The professor has described the anomalies of the economic intuition in his book. Firstly, on the basis of intuition decisions are often taken promptly, sometimes wise, but sometimes absurd and indefinite. There are several examples when the economic intuition is in conflict with the logics. For example, individuals feel the loss two times more painfully than acquisition of the same sum. This anomaly is called the “loss aversion”. Another anomaly is called the “endowment effect”, that is, people sometimes hope to get more by refusing to buy something than to pay in order to get it. This approach was confirmed by an experiment when one group of individuals received money but the other group received lottery tickets of the same value. When they were offered to change what they have received, the majority of them chose to keep what they had and not to make a change. Individuals try not to receive the message sent by their minds and reject it that some separate factors can influence them. Not always it is easy to understand the future and to say what will happen in a year if one loses the job, the family breaks up etc. At the same time the future can be successfully predicted in case a huge lottery prize is received. Not always people evaluate their activity correctly and appropriately. For example, a buyer chooses small size clothing at the shop at the same persuading herself that she will get rid of the excessive weight, but it would be more proper to evaluate the situation viably and to postpone the purchase till the weight is lost.

Several similar studies of scientists are summarized by Scott Plous in the book “The Psychology of Judgment and Decision Making”. A part of the summarized studies is dedicated to the decision making as well as it summarizes the paradoxes in the human behaviour when logically grounded or mathematically calculated decisions are not taken. Paradoxes in the human behaviour studied by scientists are discussed, and it is admitted that often it is hard to explain or ground them. One of the basic theories regarding decision making is the theory of “expected utility”. For the first time this theory was published by John von Neumann and Oscar Morgenstern in 1947. The theory does not analyze how people act in reality but it is assumed how they should act if they followed a rational strategy of decision making. One of the main objectives for the developers of the theory was to create certain axioms that would establish a rational strategy of decision making. Axioms developed by the scientists John von Neumann and Oscar Morgenstern provided the scientists with a possibility to develop a mathematical prognosis how people will act when taking decisions if there will be an expected utility. When the scientists found the lapses from the developed axioms, new axioms were looked for and offered, thus the theory was in a constant circulation among the scientists and daily life.

However, in 1953 the scientist Maurice Allais published a scientific article challenging the “substitution principle” that was further called the Allais paradox. The

“substitution principle” theory is based on the idea that if you make a decision on buying a thing, for example, a car and two various car models have the same colour, then this characteristic is excluded and is not taken into consideration when making a decision. However, Maurice Allais proved with experiments that when making decision it should be based only on those things that are distinct for each thing, not on the common characteristics of them.

The basic idea of the “substitution principle” was challenged also by the scientist Daniel Ellsberg in 1961, and now it is called the Ellsberg paradox. Grounding it in the scientific experiments where participants had to make the certain choice at the beginning and then after acquiring additional information again the certain choice had to be made; regardless the fact that additional information did not influence the result, the participants in the most the cases anyway changed their choice.

In 1956 the Nobel laureate Herbert Simon developed an alternative theory of the “expected utility” theory that proved that people want to be satisfied with the result, but they do not choose the most optimal variant out of those that were offered. One example of this theory concerns a choice of the flat: we often choose not the most economical option but the flat where we feel the best emotionally.

H. Simon wrote: “People adapt their behaviour to familiar situations and choice, but this adaptation of situations is very far from the ideal theory of the “expected utility”. However, people understand it very easily when they are satisfied and usually do not try to get a complete optimization of the situation. (Simon 1956:129)

The mental subconscious mind is related to instincts and habits. When the model of behaviour and thinking becomes enrooted, it turns into a habit which is increasingly difficult to change.

On the grounds of studies and summarized data it can be concluded that we make decisions in our subconscious minds and it is difficult to explain it later why we made exactly this or that decision or acted exactly like that and not differently. The author believes that it would be very important to understand what can influence decisions that we make, how and what can change them. A manager by making daily decisions does not analyze how and why he or she made exactly that decision and chose exactly that employee, although if the submitted employee curriculum vitae and experience descriptions were analyzed the rejected candidates could have a better experience as well as higher education level.

The importance of the intuitive thinking in employee selection

To analyze the employee selection from the company managers’ point of view, is a very difficult and complicated issue. Each manager tries to solve this issue or facilitate the solving it by various means; some of managers choose recruitment companies,

others request the candidates to do various tests with an aim to evaluate the candidates' psychological suitability for the position, mathematical knowledge, planning ability or logical thinking; other managers rely on their work experience or intuitive thinking while selecting employees. After summarizing experience of various managers and scientific studies we can conclude that the opinions regarding this issue are very diverse and no a unified opinion is reached or developed – how to select the candidate the most which complies with the set requirements, would integrate into the existing staff and would give the largest contribution to the company in future. The scientists have established that our intuitive thinking is influenced by facts enrooted in our subconscious minds, historically formed presumptions or attitudes. We even quite do not realize why and what our reaction is in reality, although we declare and emphasize that we do not have any biases. The most common biases or discriminations are related to gender, nationality and age.

In the author's opinion, that is a very small part from the actually existent discrimination when recruiting an employee. As it was mentioned before, it is not easy to prove the fact of discrimination and not all people are ready to make a complaint. In Latvia gender and race discrimination is the most widespread form, this type of discrimination exists also in the USA where several scientific studies have been carried out. The article's author believes that one of the most successful scientific works was performed by A. G. Greenwald, M. Banaji and B. Nosek that was later developed into the Implicit Association Test, IAT. By taking the test the person discovers what biases he or she has; mainly people even do not suspect that they could react that way and that according to their reaction decisions are taken. IAT test shows very well that there are biases and Afro-Americans are seen as lower race representatives having such characteristics as aggression, negligence, laziness, dishonesty etc. IAT test shows that a woman is easier to be perceive as a housewife, a person caring for children than a woman that works on her career, develops her business and makes decisions, thus intuitively or subconsciously we prefer a male candidate to a female candidate for a position of a manager or a responsible position. Several other scientists have performed studies on this or a similar issue, for example, the selection of musicians for the Munich Philharmonic is carried out by a commission listening to all candidates behind the curtain because for a long time there was a conception that certain instruments can be played well only by men and to prevent discrimination or to rule out any possible biases, a selection mentioned before is specifically carried out.

But the question still is open – how to carry out a successful personnel selection, how to take a decision easier on which of the candidates is the best. In the author's opinion this is a discussion or an issue that is not scientifically solved fully. So, if we analyze the view of the scientist David G. Myers, he tries to prove that when selecting the employees one should not rely on his or her intuition but on tests, special tasks as well as on the opinions of other recruitment commission members. The social psychologist Richard Nisbett has discovered and proved in his works the factor of the “interviewer illusion” when people

who do the interviews are so self-confident and think they know people that well that they do not see it necessary to verify their opinions with tests. Of course, every manager has encountered situations when people are erroneously recruited, when a person had shown or presented himself or herself the best, but in the daily work turned out to be an absolutely different person. Besides, we have to take into consideration that the job interview is a specific situation and that everybody tries to emphasize only his or her good and positive characteristics. The researcher of the management issues Michael Campion and his colleagues note that one of the indisputable conclusions of their studies is the following: "A structured interview increases the safety and sincerity of the interview and as a result it has an important role in making conclusions and taking decisions regarding the personnel selection". A structured interview starts with determining the circumstances, with forms of behaviour, knowledge and skills that later guarantee fulfillment of responsibilities in the particular position in high quality. Then situations that the candidates could encounter at work are considered and the candidates are asked to analyze these situations and comment on them. The interviewers can ask the candidates to comment on some situations that they encountered at their previous workplaces. During the interview the interviewers make notes and put the ratings gradually as well as try not to ask questions during the interview that are not related to work, position taken and fulfillment of job responsibilities. This way a possibility is excluded that a wrong opinion about the candidate can be formed or that one could be influenced by his or her experience and private opinion. Thus an objective evaluation of the candidate's knowledge, working abilities and experience is carried out. But still a question about the emotional evaluation of the employee is open as often the employee needs to be not only the best specialist in his or her field but needs to be able to integrate into the staff and to accept traditions and experience of the new staff. If these factors are not taken into consideration during the job interview, later a situation can develop that the employee cannot adapt to the new working conditions and start looking for a new job or cannot dedicate oneself to work fully.

Malcolm Gladwell in his book "Blink: The Power of Thinking Without Thinking" has summarized works and studies of several scientists; he tries to prove that it is not that important to make complicated tests or calculations, but one should rely on his or her intuition. Because often those specialists that daily do one and the same work, reach very high professional level in their very narrow and specific field. And the intuition is perceived as summarization of our experience and past events that tells us how we should act in each of these situations on the basis of our previously acquired knowledge. One of the best examples that show the prevalence of intuitively made decisions over carefully analyzed data, situations modeled with a help of IT technologies, is the participation of the General Paul Van Riper in the war game exercise Millennium Challenge 2002, where he surpassed the others because he based his decision making only on his intuition, experience and knowledge and absolutely trusted in his subordinates and let them make decisions and act by themselves.

Conclusions

In the rapidly changing field of business where every decision made can have a huge impact on the development of business and often it is not possible to weigh out or evaluate the possible consequences in long-term, one has to admit that an increasing influence is gained by those successful managers or employees who can react promptly, take decisions and carry out their work independently. We have to recognize it that the experience, accumulated knowledge and intuition has an increasing importance in taking decisions as in the changing and often critical market conditions it is impossible to calculate the development of all things and to predict all factors influencing the development of the company. Besides, we have to take into consideration that when doing some calculations or creating matrices, also some presumptions are formed that are based on the experience and intuition of their developers. The author believes that the intuition has a very significant role in decision making but it should not be overrated and one should not rely on it blindly.

When examining the studies of scientists we can conclude that there is no joint opinion or prevalence of any of the provided theories. We have to note that in practice the employee selection with a help of tests as well as interviews we have to take into consideration what our intuition says who should be employed, because the employee selection is one of the most difficult job responsibilities of the manager. All scientists come to one conclusion that for the employee selection the time and finances should not be economized but one should gather as much information on the future employee as possible, because, when recruiting a new employee the company uses its time and resources to train the person, to introduce him or her to work and if the employee needs to be fired afterwards and a new employee has to be found instead of him or her, then these are substantial losses for any company. It means that the managers and company owners should turn especially great attention to the employee selection as the employees are the main value of the company.

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SUSTAINABLE LAND MANAGEMENT SYSTEM AND INTERRELATION OF ITS ELEMENTS

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Abstract

The topicality of the study on land management system and its sustainability dimension is determined by the globalisation tendencies of the global economy and the reduction of the reproductive capacity of renewable natural resources. The land management system must be sufficiently flexible so that it could constantly adapt to the changeable internal and external environment. In comparison with other economic resources, land is characterised by several unique features, quantitative and qualitative aspects of which are incorporated in the land management system. The study is even more topical because the significance of the State in improvement of land use in Latvia is more topical in comparison with more developed European countries. Yet land use in Latvia formally conforms to the sustainable development guidelines – the renewable biological resources created by productive soil, waters, and terrain and environment appropriate for living creatures are not utilised within a year in Latvia. Latvia may lose this advantage if a sustainable land management system is not established and implemented, ensuring not only resources for economic activity of people, used not only for satisfying the public needs, but also serving as a living space for the preservation of the diversity of species and the preservation and increasing of the capacity of biological resources to recover. Within the scope of the study a justification for a sustainable land management system is developed with 4 dominating pillars – economic, social, and ecological and institution pillar. The paper mostly deals with institutional aspects of sustainable land management, the most important levels of land management are identified and analytical evaluation of their interrelation is performed.

Keywords: *land management, resources, land use, institutions, functional goals, efficiency.*

Introduction

Increasingly more attention is continuously paid to the land management issues in the most developed countries of the world. It is related to several significant aspects, which distinguish land as an economic resource from the other resources used in economic activity. The most important aspects of them are: land is the most essential source of resources for the socio-economic development of any country; land is the foundation for the preservation and development of the biological system; land is the only, legally specified and politically the most accepted living space for inhabitants of the relevant country and its regions. One of the characteristics in Latvia and in other countries of transitional period manifests as a lack of systemic and purposeful action in improvement of land management. Different actors or their groups and their private interests are dominating in individual land use segments, and their interests frequently contradict with the interests of the local inhabitants and the State interests at large.

Efficient management of land is a fundamental issue of the State development, which may promote more efficient activities of State and municipal institutions, public organisations and enterprises in achievement of their individual objectives. Organisations may achieve the objectives set forward and fulfil the relevant tasks with lesser resources because their activities in the land use issues have been strictly specified and are clear and understandable. Good management is not only the cornerstone for increasing the efficiency of organisations, but also contributes to the satisfaction of the social and economic needs of the society. (Mullins 1996) Good management, private property of land and safety of the property is the foundation of sustainable socio-economic development. (United Nations ECE/HBP/140 2005)

In improving the land management system it is important to identify the land management levels existing in this system and the competence of the management actors included in the system as regards taking decisions in relation to issues regarding the use of land in a better and more efficient way, balancing the interests of the land owner, local society and State administration. In order to ensure constant operation of this system according to the sustainable development guidelines and in accordance with the national strategic development guidelines, it is necessary to create such institutional and legal preconditions, which are favourable for the solving of these problems. The national institutional environment should be formed in such a way that a land owner and/or a land user – legal possessor of land could be certain that he will have the possibility to use the relevant land unit, without hindrance, in the best and most efficient way, taking into account the procedures specified for the use of land. Inefficient, unforeseeable and subjective actions of State institutions and municipalities complicate and hinder the implementation of the interests of land owners and reduce their chances of using their property or lease object according to their interests insofar as they do not pose threats to the interests of inhabitants of the relevant territory. Thus, subjective and inefficient land management system hinders the

development of the national socio-economic and ecological system according to the sustainable development guidelines and poses threats to the trust of individuals of the society in the national political system.

A study of socio-economic and ecological processes of land use, using the most appropriate scientific research methods and having a good knowledge of regularities of socio-economic development, provides an opportunity to detect the causes of the problems, which have arisen, and to form proposals for improvement of the sustainable land management system. Thus, it is very probable to foresee the socio-economic effect of the decisions taken by State administrative and municipal institutions in each particular situation. Increasing the efficiency of land management is a fundamental and continuously topical issue, which, in case of positive solution, may impact the co-operation of State and municipal institutions, public organisations, merchants and households in achievement of the land use objectives. Land management may be regarded as a set of legal, economic and organisational measures of significance to the functioning of the national economy, the objective of which is to promote land use in the best and most efficient way from the point of view of the interests of an individual and the society at large.

Several publications mention the necessity of systems approach and the significance of institutional systematisation for sustainable management of land resources. *Herweg, K., Steiner, K., Slaats, J.* indicate that, within the scope of sustainable use of land, preservation of the fertility of land and freshwater reserves, and resources for satisfaction of the needs of inhabitants should be constantly ensured, as well as the necessary conditions for the maintenance of biological diversity should be created (Herweg, Steiner, Slaats 1999). *Hurni, H.* in his publications justifies that within the scope of sustainable land management it is necessary to pay increasing attention to the co-operation of the parties involved in the process in socio-economic aspect and to the global issues of land use – in ecological aspect. (Hurni 2000) The author argues that a comprehensive, participatory approach involving actors at all levels will have the potential to develop useful solutions within a favourable, i.e. ‘enabling’ institutional environment for sustainable land management. Expected progress in relation to the sustainable land management is not achieved up till now – fruitful lands still decrease, the intensity of deforestation, including wet forests increase. (Rees 2004) More than 50% of agricultural land existing in the world countries is exposed to erosion, it affects 38% of crop fields, the total harvest due to soil degradation and insufficiency of water in the world has reduced by 16%. (Gabathuler, Liniger, Hauert, Giger 2009) The number of people with restricted access to drinking water is constantly growing and the damage caused by natural disasters is increasing every year. (Bostrom 2002) The goals and objectives of the institutions involved in implementation of land policy are prescribed by land policy planning documents in Latvia. [8] The problems in the management of the use of land resources and the social and ecological problems caused thereby are largely related to the non-conformity of the institutional environment with

challenges, faced by land users in conditions of economic globalisation. Analytical evaluation of institutional systematisation problems in relation to the issues of land use management has been performed in publications by *Auzins, A.* (Auzins 2004)

The *aim of the study* included in this publication is to justify sustainable land management system, to identify the most important elements of this system and to discover their interrelation, to determine the socio-economic and ecological content of this system, as well as to evaluate the impact of the land management system on constant increase of efficiency of the use of resources at the disposal of the society. The *hypothesis* of the study is as follows – systems approach to land management issues does not exist in Latvia and it, in point of fact, does not conform to the sustainable development guidelines. *Methods* of analysis and synthesis, induction and deduction method, method of logical approach, method of systems approach, as well as other methods appropriate for achievement of the aim of the study and proving of hypothesis have been used in the study.

Actors of the Sustainable Land Management System and Their Interaction

“Land” forms part of a land management system as a specific type of resource and physical spatial object with a specific value at a specific site and time, to which specific rights are attributed. Land in the market economy system is an independent object of transactions in the immovable property market, which has a specific economic, social, ecological and cultural and historical value, and it serves as an object for a specific purpose of use. Transactions with land and land use are regulated by the relevant regulatory enactments, which determine the rights and obligations of the possessor of land.

In order to promote the use of land as an economic, ecological and social resource in the best and most efficient way from the point of view of a land owner and the society, taking into account the conditions of changeable external and internal environment, the *public management actor* – the relevant State institutions, municipalities and public organisations – should be sufficiently adaptive in the land management process, able to respond to changes in a flexible and timely manner, preserving the progress towards achievement of objectives of importance to the society within the scope of the sustainable development guidelines. It means that the relevant State administrative and municipal institutions should not only have the right to “prohibit, instruct and punish”, but the decision-makers should be aware of the responsibility for the course of land management processes in the relevant level of management, the conformity of processes with the interests of sustainable development of the society and the natural wish of the legal possessor of land to use the relevant land unit in the best and most efficient way possible. Flexibility and conformity of the fulfilment of functions of the

institutions and authorities involved in land management with external changes largely determines not only the competitiveness of the relevant land user, but also influences the ability of the relevant populated area, region and the whole State to adapt to the challenges of global competition.

Land management includes different measures for increasing the efficiency of the use of land resources and protection thereof for a longer period of time and does not depend on the position of any individual or organisation, but is more related to the results of interaction of different organisations in different levels of land management. Preconditions of legal nature are being developed within the scope of the land management system, which are directed towards regulation of land use within the interests of the society and land owner in a wider sense of the word. Land management is the co-operation and interaction process of many participants (Auzins 2008), which determines the objectives and restrictions of land use, taking into account the development possibilities of the relevant populated area according to the interests of inhabitants and land possessors.

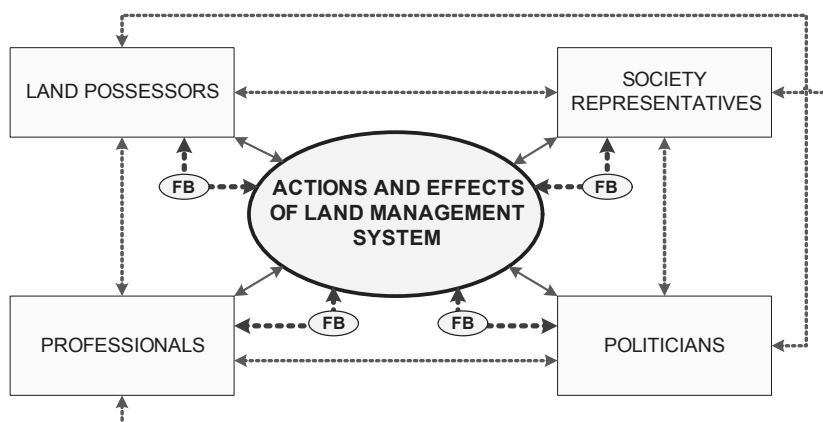
Sustainable land management system as the scientific category of the land management theory is being explained as follows:

“Sustainable land management system – a set of functionally compatible elements, within the scope of which land use in the best and most efficient way is promoted, balancing the economic, social and ecological interests of legal possessors of land, local inhabitants and county, region and the whole State in land use issues.”

The following actors operate within the scope of a sustainable land management system as the representatives of the most important elements of the system:

- *legal possessors of land* – holders of the property rights and/or land users;
- *professionals* – persons who prepare decisions on land management issues and persons who ensure execution of the decisions taken;
- *politicians* – persons who take decisions on land management issues, usually persons elected by citizens;
- *representatives of the society* – participants of land management processes, expressing their opinions on current land management issues, usually operate in the form of public organisations.

It should be noted that the actors involved in a sustainable land management system are interrelated and interrelation and interaction of the participants of this process within the scope of the land management system may ensure maximum conformity of the decisions taken with the changes in internal environment of economic activity and external challenges. Classification of the actors, which have involved in the land management, identification of the aspects, which have emerged in their activities, and evaluation thereof requires systems approach.



Abbreviations used in the Figure: FB – feedback.

Fig.1. Actors of the land management system and functional model of their interaction

The model included in Figure 1 demonstrates systems approach to the determination of the actors *involved and operating in land management*, as well as the influence of these actors on the processes taking place within the scope of the land management system and the effects caused by these processes. In such case effects designate the decisions taken by the actors operating within the scope of the land management system and the consequences caused thereby in a specific institutional environment in interaction with the internal factors influencing land use and external challenges. It should be noted that systems approach to the observation and evaluation of the actors of land management provides an opportunity to identify the interaction of the actors involved in the system and the consequences thereof. Within the scope of the system the participants thereof exert influence on both each other and the system at large. However, it should be taken into account that the behaviour of each element of the land management system is determined by its competence in land management issues. It means that such actors have become involved in the land management system, and they have limited abilities to influence the operation of the system at large. On one hand, such limitedness is determined by the relevant regulatory enactments as the objective aspect and knowledge, experience and skills of the stakeholder as the subjective aspect. However, on the other hand, the influence of actors on the operational effect of the system is limited by time because quite often it is not possible to implement the preferable changes in short-term, however, they are not limited in a longer period of time.

Theoretical justification of land management is closely related to the theoretical statements of the management, system and institutional economy. Thus, research work should be conducted in this direction in the interdisciplinary reference space of the

relevant sciences, which naturally includes economy, law, organisational theory, political science, sociology and anthropology. Such approach provides an opportunity to understand the socio-economic and political nature of the institutions involved in land management.

For analysis and evaluation of the operation of the actors involved in the land management system it is important to take into account the feedback, which provides, for each group of actors, the information necessary for decision-making and behavioural correction regarding quantitative and qualitative aspects of operational effects of the land management system. It is the feedback that promotes the interaction of the actors involved in land management in their search for mutually beneficial decisions oriented towards the use of a specific land parcel in the best and most efficient way, concurrently preserving the conformity of the relevant territory, region and State land use with the sustainable development guidelines. (Vanags, Geipele, Mote 2010, Mote, Vanags 2009) With the aid of the feedback, actors of the land management system receive the information necessary for decision-making regarding changes in the entrepreneurial environment and behaviour of market participants in a specific populated area and effects of the impact of external factors on the environment in the widest sense of the word.

Sustainable Land Management: Different Levels and Basic Principles

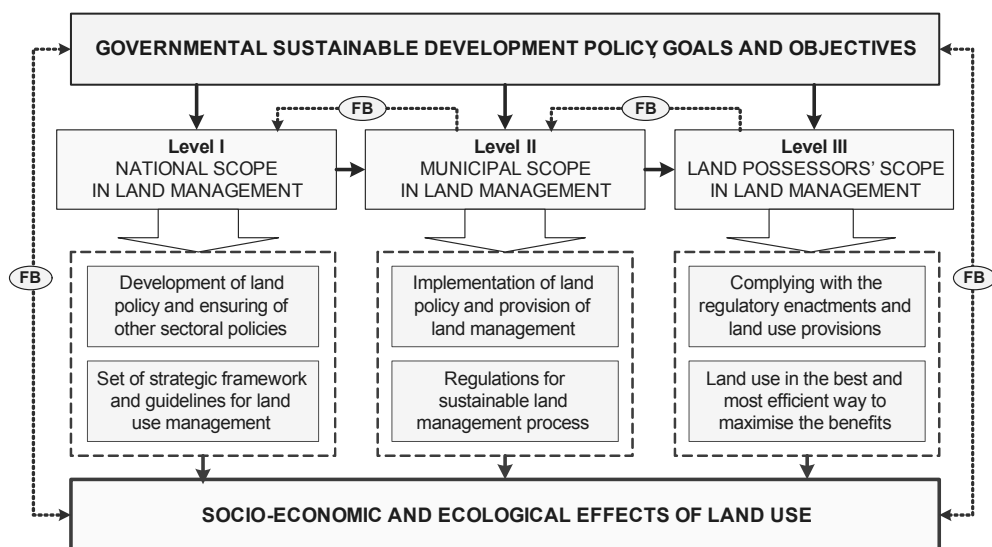
The content and forms of land management differ significantly from the management type of other resources. These differences are directly related to the specific features of the management object – land. Land in the management system is perceived not only as an economic resource, but also as a State territory, living space of its inhabitants, space where renewal of biological resources takes place, as well as the foundation of existence of the ecological system. These are the aspects, which determine the complexity of the land management system, the relatively high level of its bureaucracy, conservative nature, unwieldiness and comparatively high inflexibility in comparison with many other management systems.

After studying land management systems in several European states, a conclusion may be drawn that these systems are holistic, comparatively centralised regardless whether it is possible to identify the national, regional and local level therein. The different land management systems of various countries essentially serve for multipurpose use of the land, looking from the point of view of interests of the State, region, municipality and actual user of the land. Within the scope of this system material interests of different actors are being balanced in the institutional environment with the socio-economic and ecological interests of the society. Thus, in evaluating land management processes, the measures included therein and the public status of

participants, the functional objectives of State and municipal institutions, the tasks set for fulfilment thereof, the regulation in the field of land use and protection, as well as the entrepreneurial, social and ecological aspects in land use may identify formally different levels of land management.

Land management levels naturally become part of a sustainable land management system. A generally recognised objective of the land management system closely correlates with the increase of the welfare level of inhabitants in relation to the increase of the amount of the produced gross domestic product per one resident of the relevant country, its region or municipality. In turn, the main emphasis in a sustainable land management system is put on the preservation of the balance of economic, social and ecological aspects. It means that, in increasing economic welfare, a particular municipality, region and country should take into consideration the biological and mineral resources of land existing in the relevant territory, as well as with the possibility of accumulation of the caused pollution, without endangering the ability of the ecological system to restore.

Land management levels in relation to the objective of sustainable system, the functions of land management institutions and the interests of participants of land management are included in Figure 2.



Abbreviations used in the Figure: FB – feedback.

Fig.2. Functional relation of the land management levels in the sustainable development context

A sustainable land management system includes three main elements, which form land management levels. Each level is represented by the actors involved in land management – the State, municipalities and legal possessors of land. Each element of the system has a specific competence in land use issues. The first land management level includes State institutions, which determine the strategic guidelines for the use of land and the priority sectors of national economy in relation to the objectives and tasks of the national sustainable development policy. The relevant institutions ensure the development, implementation and co-ordination of the sectoral policy in the national management system. Such issues as the use of land for the development of infra-structure of national economy, for the modernisation and expansion of the State security and protection system, as well as for the nature protection measures for the preservation of diversity of species and the utilisation of waste produced in national economy are solved in this level. The second level of land management is represented by municipalities, which take specific decisions on the possibilities of land use in accordance with the interests of inhabitants of the relevant territory and land users, taking into account the self-preservation possibilities of the biological system at a specific site, as well as the positive and negative side effects, which are caused by the use of land according to the interests of land owners.

The third level includes land owners and users who, to a large extent, determine the efforts of the preceding land management levels to promote the use of land in such a way as to preserve the reproductive capacity of renewable biological resources. It means that, in determining the use of a specific land unit in the best and most efficient way, ecological aspects of land use should be taken into account. It should be noted that the economic benefit of the use of a land parcel belongs to the land owner, however, the public interests must be taken into consideration in relation to the ecological benefit. For the purpose of balancing material interests of land owners with the social and ecological interests of importance to the society, it is necessary to develop such system of compensations, within the scope of which the social and/or ecological benefit created by the use of a particular land unit would be evaluated accurately and the land owner would have an opportunity to transfer this benefit in return for an appropriate payment for public needs. Such approach would deter owners, to a certain extent, from concentrating on maximisation of material benefits in the use of land, which forms the foundation for excessive consumption of natural resources and promotes reduction of the diversity of species. In such situation the issue regarding the price of social and ecological benefit remains open. The issue in relation to integration and socialisation of the benefit of land use should be solved in the first level of land management within the scope of a specific regulatory enactment.

Feedback of a sustainable land management system ensures the participants of land management with the necessary information for timely decision-making regarding correctional and preventive activities to be performed in order to ensure land use according to the sustainable development guidelines throughout the State territory. As shown in the model included in Figure 2, it is necessary to form feedbacks of both

directions – horizontal and vertical – within the scope of a sustainable land management system. Horizontal feedbacks are established in each level of management. For example, in the third level exchange of information is ensured regarding land use issues among the adjacent municipalities and territories with similar quantitative and qualitative aspects of ecological system. Vertical feedbacks ensure exchange of information among land management levels, ensuring co-ordinated activities of all elements included in the system and the conformity of action with the system objectives.

It is necessary to take into account the following most essential *basic principles* for the functioning of a sustainable land management system:

- *principle of sustainability* – absolute limitedness of the amount of use of natural resources and rational use thereof, preserving the diversity of species necessary for the biological system at a specific site and in a specific time;
- *principle of integrity* – determining the use of a specific land unit in the best and most efficient way, not only economic benefit, but also positive social and ecological effect is taken into account, which may be ensured by the use of the land resources existing in the relevant territory, integrating the interests of the land owner and of the society in a uniform system;
- *principle of competition* – promotion of competition among legal possessors of land for the use of a specific land unit and the whole territory in the best and most efficient way, taking into account the socio-economic and ecological benefits created in land use;
- *principle of balanced interests* – the development of the regulatory enactments regulating land use and the supervision of land use is performed, taking into account the interests of legal possessors of land, local inhabitants, municipality and the State at large;
- *principle of diversity* – diverse use of land resources according to a specific legal and administrative framework, taking into account the quantitative and qualitative aspects of the cultural environment and ecosystem of the relevant territory;
- *principle of continuity and succession* – upon changes in the political management infrastructure of the State and municipalities and the regulatory enactments regulating land use, the dominant of sustainable land use remains unchanged;
- *principle of fairness* – the necessity for the society to purchase benefits of social and ecological nature created by the land user therefrom, restricting land use in accordance with the maximum possible economic benefit;
- *principle of openness* – local inhabitants are involved in land use planning, development of decisions and regulatory enactments, offering them complete information regarding the results of land use, the positive and negative side effects and other aspects necessary in order to promote active participation of inhabitants in land use management.

Substantial changes in the national socio-economic and ecological system are necessary for introduction and application of individual land use principles, being aware that

sustainable land use is constantly related to the maximisation of socio-economic and ecological benefit at a specific site and time regardless of the status of the land owner or land user. It is one of the weakest links for the preservation of the restorative ability of the ecological system. Previous practice clearly points towards dominance of material benefits in land use, which promotes further degradation of biological diversity. In political circles the main attention in solving sustainability problems is concentrated on political discussion in order to find a mutually acceptable solution, however, due to insufficiency of measures taken for the preservation of the biological system of the environment, the degradation process of the environment intensifies.

Sustainable Land Management Process and its Elements

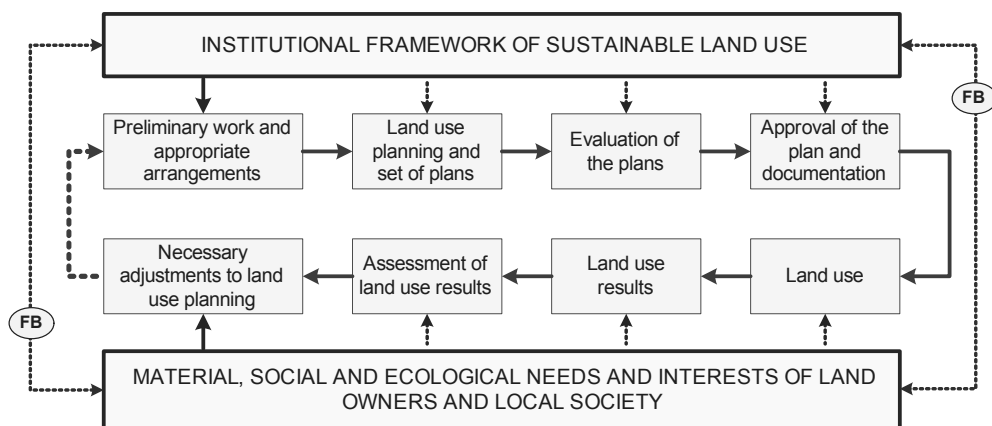
Land management may be regarded as one of the most ancient and significant processes for management of economic and public matters. Moreover, interests of a specific individual, local government, county, region and the whole State are being constantly confronted within the scope of the land management system. A land management system, which has endured radical changes along with the development of civilisation and evolution of the democratic state administrative system, has already served for the purpose of balancing these interests for a long time.

The process of sustainable land development consists of the following most significant elements:

- identification of material, social and ecological needs of individuals of the society;
- balancing of the needs of individuals of the society with the utility and resources at the disposal of the society;
- acquisition, aggregation, analysis of information and synthesis of conclusions regarding the use of each particular land parcel in the best and most efficient way from the point of view of the land owner and the society, taking into account the social and ecological aspects of land use;
- specification of long-term and short-term goals of sustainable land use, “splitting” thereof in tasks oriented towards achievement of objectives within the scope of the environment of a specific economic activity;
- planning of land use and development of alternative development plans, discussion and approval thereof;
- provision of the supervision of land use according to the objectives of sustainable use;
- land use in the best and most efficient way within the scope of a specific socio-economic and ecological system;
- aggregation of land use results, including regarding the positive and negative side effects created, processing, analysis and synthesis of results, preparation

- of information regarding the necessary changes in specification of land use objectives and in the regulatory enactments regulating the procedures for use;
- identification of changes in the needs of individuals of the society and their link to the utility.

The most significant stage in the land management process is identification of the needs of individuals of the society and the utility. It should be noted that it is not possible to implement all needs of individuals of the society within the scope of the socio-economic system, but only the needs, which conform to the utility of the relevant need, which is restricted by the income at the disposal of participants of the market economic system. Only the needs to be implemented are included in plans of land users so that the relevant land units would be used in the production of such goods and services, which are recognised as useful for the society at a specific site and time. Taking into account the increasing needs of inhabitants and the limited resources in land use, authors of the publication offer a functional model of the sustainable land management process in Figure 3.



Abbreviations used in the Figure: FB – feedback.

Fig.3. Functional model of the sustainable land management process

The content of the sustainable land management process and the basic principles to be implemented are determined by the national sustainable land use policy and its implementation in local governments. Institutional framework in land use ensures the legal basis necessary for this process, respecting the property rights and guaranteeing their protection, without endangering the property rights of each individual of the society and constantly promoting the observation of the material, social and ecological interests of different social groups in land use issues. Institutional framework in sustainable land management process ensures the conformity of the implemented land use types with the sustainable land use policy.

Planning of land use is one of the most important elements of the land management process. It begins with the development of a uniform land policy and the implementation of the spatial planning system, taking into account the socio-economic and ecological interests dominating in the society. The relevant regulatory enactments are used in regulation of planning, falling in a uniform system of interrelated elements of spatial development planning. Land use for economic purposes forms a significant dimension of spatial development. It is shaped according to the spatial development plan and detailed plans of the municipality, supplementing them with land survey measures, which determine the use of a specific territory for building up or other purposes specified in plans. Within the scope of the sustainable land management system the objective of the economic use of land is merged with the social and ecological aspects of the development of the relevant territory.

Preparation works for planning of land use are performed in the initial stage of the land management process. In this stage the most significant measures are related to the gathering information regarding the interests of legal possessors of land, aggregation and systematisation thereof, on one hand, and the finding out of opinions of the individuals of the society living in the relevant territory regarding the preferable social and ecological development directions of the relevant territory, on the other hand. In this stage it is important for spatial planners to find the necessary compromise between the interests of land users and the interests of individuals of the society in a short-term and long-term period of time. However, this significant task of land management is solved only in the next stage when the socio-economic and ecological justification of the development of the relevant territory is developed. The draft spatial development plan developed is handed over for public discussion, during which inhabitants of the relevant municipality have an opportunity to express their opinion on the land use type in specific land units and the establishment of infrastructure necessary for implementation of this type. Only after summarisation of the results of discussion and their evaluation from the point of view of sustainable development of municipal territory, the authorised representatives of the society of the relevant county approve the land use plan and it becomes a regulatory document, within the scope of which the interests of the involved parties are consolidated.

Land use according to the development plans of the relevant territory is the starting point of examination or, in other words, putting into practice of theoretical formulations of land management. In this stage of land management the preferable scenario meets the reality – land use in the best and most efficient way, taking into account the socio-economic and ecological interests of the society, which have been included in the relevant regulatory enactments.

A system of indicators should be determined for the evaluation of economic, social and ecological effects obtained as a result of land use. Evaluation should be performed, taking into account the land use types both in territories where building and technical infrastructure or, in other words, artificially created resources prevail on the

basis of the main functionality, and in territories where natural environment or natural resources prevail.

It should be noted that reality is significantly more complicated than the best development plan of a specific situation. It also fully applies to the land use plan, in which it is not possible to foresee all internal and external factors that determine the opinion of land owners on the use of a specific land unit in the best and most efficient way, on one hand, and the opinion of the other individuals of the society on the social and ecological development guidelines of the relevant territory, on the other hand. In order to detect these changes and to respond to them in due time, feedback is included within the scope of the land management system, ensuring the actors included in the land management system with the necessary information in each land management level. In cases when the results of land use practice, the internal and external environmental changes, as well as the material, social and ecological interests of individuals of the society show a critical non-conformity with the existing plan for the use of territory, measures for making corrections and amendments to the development plan of the relevant territory commence in the land management process. Thus, a constant mechanism for the updating of the system is introduced in the sustainable land management process, ensuring the necessary sensitivity and flexibility in relation to the changes of the internal and external environment for economic, social and ecological aspects of land use.

Conclusion

Upon studying the land management system and determining its sustainable development aspects, as well as evaluating the land management levels and the sustainable land management process, the following most significant conclusions are drawn:

- 1) Actors of the land management system are: legal possessors of land; qualified specialists; politicians and representatives of the society, which interact within the scope of the system, using land resources and creating results or effects of land use.
- 2) Socio-economic, ecological and institutional aspects prevail in the sustainable land management system and the justification of the system has been found, analysing the functional interrelation of the land management levels and the basic operational principles of the system.
- 3) The sustainable land management process functions within the institutional framework of sustainable land use, observing the socio-economic and ecological needs and interests of land owners and the local society.
- 4) The sustainable land management system has a decisive significance and influence on the use of the resources at the disposal of the society in the best and most efficient way, as well as on constant increase in efficiency of their use.
- 5) Although the Land Policy Guidelines and the Concept of the Land Management Law has been developed in Latvia, the land management activities taking place

in practice and the relationship of the actors involved in them do not create a sense that systems approach is used in solving sustainable land use issues and taking of the relevant development decisions.

- 6) Such system would be appropriate for the sustainable development guidelines, in which the functional connection of land management levels would result in constant promotion of the use of land in the best and most efficient way – as a result the benefit from land use would be as large as possible. However, mutual co-operation of the participants involved in land management should be ensured for this purpose in preparation and taking of decisions in relation to land use, development and protection, as well as constant supervision of land use and periodic evaluation of land use results should be performed.

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ANALYSIS OF THE FACTORS IMPACTING THE CONSUMPTION AND PRICE OF BREAD IN LATVIA

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Abstract

The aim of the research carried out by the authors was to investigate the factors impacting bread consumption and bread price formation in Latvia. According to the research result, the consumption of bread in Latvia decreases. A decrease in the consumption of bread can be explained by the expensiveness of bread, a decrease in the number of residents, a decrease in incomes of residents, and the substitution of bread with other food products. According to the authors' calculation, the price of sweet and sour bread rose 60%, the price of wheat bread – 53%, and the price of rye bread – 51% over the recent four years if bread prices observed in December of 2010 are compared with those in January of 2007. This price increase, according to the authors, was a reaction of bread producers on an increase in demand, a rise in population incomes, and a price hike of raw materials. During the research, the authors found that the price of wheat bread is impacted by prices of wheat flour, the retail policy of an enterprise, energy costs, labour costs, the financial situation of an enterprise, its incomes and expenses, the marketing strategy of enterprises, and other factors. The main indicators impacting bread prices are demand, competition, and costs. The **research methods used** in the present research: the monographic method, the logical and constructive method, induction and deduction, statistical analysis methods, the graphical method, surveying, the demand price method, and the price formation method “average cost plus profit”.

Key words: *bread consumption, bread price, price-impacting factors.*

Introduction

Only in the 1980s in Latvia, more attention was paid to baking bread, and the production of traditional rye-bread baked in the hearth was gradually restored. During this period, industry developed, the standard of living of population increased, incomes rose, but bread lost its significance as a cheap and nutritious food. A century ago, the consumption of bread was two times greater than in 2010.

Nowadays, bread is baked at large, medium, and small enterprises having automatic, economical, and modern equipment that facilitates not only manual work, but allows production of products of unchangeable quality. With the rhythm of life developing, bakers, too, use technologies allowing them to shorten the process of producing bread without losing bread's taste, aroma, and softness. Although the process of production is modernized and developed according to the present standards, yet today the knowledge and experience of bakers, their know-how, and small secrets are important.

The largest bread consumers are the residents of Latvian towns who consume approximately 24,8 kilograms of rye bread and 21,5 kilograms of wheat bread a year. Yet the residents of Rīga city consume annually only 14,8 kilograms of rye bread and 16,6 kilograms of wheat bread. Just a decade ago, a Latvian resident consumed 80 kilograms of bread a year.

The **research aim** is to investigate the consumption of bread and the formation process of bread price and the factors impacting them in Latvia.

To achieve the aim, the following **research tasks** are set forth:

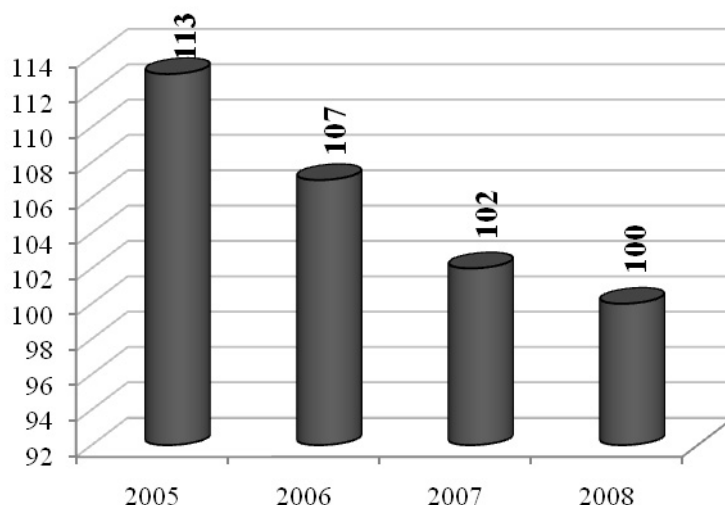
- to characterize the industry of bread in Latvia;
- to analyse the factors impacting the consumption of bread;
- to analyse the factors impacting the formation of bread price.

The **research methods used** in the present research: the monographic method, the logical and constructive method, induction and deduction, statistical analysis methods, the graphical method, surveying, the demand price method, and the price formation method "average cost plus profit".

Research results

In 2010, the main players in the Latvian bread market were "Hanzas maiznīca" (net turnover was LVL 20,35 million in 2009), "Fazer maiznīca" (net turnover was LVL 12,84 million in 2009), and "Maiznīca Dinella" (net turnover was LVL 9,12 million in 2009) which control approximately 54% of the wheat bread market and 47% of the rye bread market. However, more than 70 small bread bakeries share, in tough competition, 46% of the wheat bread market and 53% of the rye bread market. (Dieziņa S., 2011)

After getting introduced with Central Statistical Bureau data on bread sales for the period 2005–2008, one can see that the sales declined, see Fig.1.

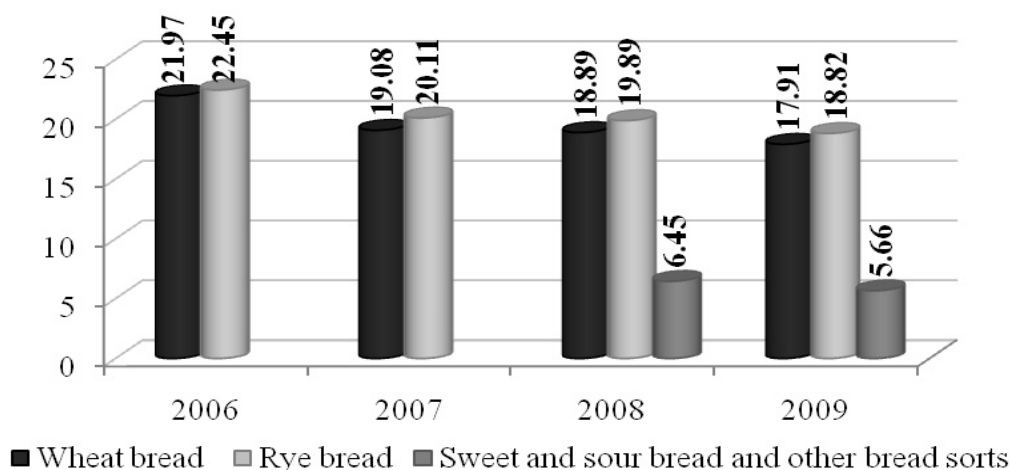


Source: developed by the authors according to CSB data

Fig.1. Bread sales in the period 2005–2008, thsnd. tons

Fig.1 shows that the quantity of bread sold in Latvia in 2005 amounted to 113 thousand tons, while in 2008 – only 100 thousand tons. Therefore, one can conclude that the decrease in sales in 2008 was 11,5% compared to 2005. This decrease can be explained by a real decrease in the number of residents, a decrease in purchasing power, a decline in demand, and the fact that statistical data do not include the sales of bread produced at supermarket bakeries, the quantity of which increased during the economic boom. It means that there are discrepancies in data on bread consumption by households and in various growth forecasts in the national economy.

The consumption of bread products decreased in Latvia over the recent years and continues decreasing.



Source: developed by the authors according to the main result of the Household Budget Survey

Fig. 2. Bread consumption by households in Latvia in 2006–2009
per household member a year, kg

Fig.2 presents information on changes in the consumption of bread in Latvia without regard to the decrease in the number of residents. According to the authors' estimates, in 2009 a household member consumed on average 4 kg or 18,5% less wheat bread and 3,6 kg or 16,2% less rye bread compared to 2006. The consumption of sweet and sour bread and other sorts of bread per household member a year is relatively small, i.e. 6,45 kg in 2008 and 5,66 kg in 2009. The decrease in the consumption of bread can be explained by the high price of bread – according to studies conducted by the Marketing Council, the largest part of residents or 71% does not purchase bread that costs more than LVL 1. Of consumers, 27% buy bread that costs less than LVL 0,5, 11% choose bread costing approximately LVL 1–1,15, 2% buy bread costing LVL 1,5–2, and only 4% can afford to buy bread that is more expensive than LVL 2. The decrease in the consumption of bread is also impacted by a decline in incomes of population (it is especially related to the second half of 2008 and to 2009) and by the substitution of bread with other products of food.

After analysing the supply of and demand for bread, the authors conclude that the bread market in Latvia can be regarded as a market of monopolistic competition, as the supply-side and the demand-side are represented by a large number of market participants, goods are not homogenous, and goods are easily substituted. Competition in the Latvian bread market is quite high, which prevents from the emergence of oligopolies from the industrial enterprises – JSC “Hanzas maiznīca” and “Fazer maiznīca” Ltd. Since competition among bread producers is quite high in the market, the demand for bread is quite elastic. The fact that the demand for bread is elastic is determined by several factors (see Table 1).

Table 1

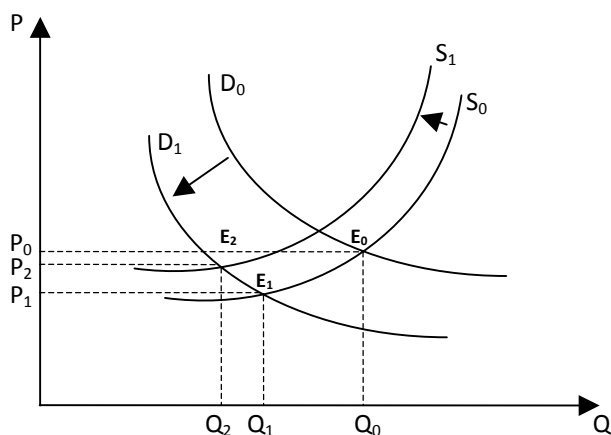
Factors impacting the price elasticity of demand for bread

| Impacting factors | Price elasticity of demand | |
|---|----------------------------|-----|
| | high | low |
| Many substitutes for bread are available in the market | + | |
| Buyers need bread | | + |
| Bread is not a unique good or the one that is very important for buyers | + | |
| Buyers can easily compare bread prices with those of competitors | + | |
| Purchase of bread significantly affects the budget of consumers | + | |
| Buyers pay for bread on the spot | + | |
| Buyers regard price as an indicator of bread quality | | + |

Source: developed by the authors

There are many substitutes for bread in the market, for instance, bread of other sorts or bread, biscuits, cakes, as well as pasta and flour produced by other enterprises. The demand for bread is elastic due to the fact that expenses on bread make up a quite large part of total expenses on food and non-alcoholic beverages. For instance, 14,51% of the total monthly expenses on food and non-alcoholic beverages was spent on bread and grain products per household member a month in 2008, but in 2009 – 14,6% (main results of the Household Budget Survey in 2009, the authors' estimates). Consumers usually assess the quality of bread by its price. After analysing the factors impacting the price elasticity of demand for bread, the authors conclude that the demand for bread is elastic. When setting a price of bread, its producers and sellers have to take into consideration the high price elasticity of demand because in case demand is elastic, incomes of enterprises will increase if a price of bread is reduced, whereas their incomes will decrease if a price of bread is raised. Of course, in practice it is not possible to keep a price constant or to reduce it, as both the endogenous and the exogenous factors impacting prices continuously change.

The changes in demand, supply, and prices in the Latvian bread market during an economic downturn since the second half of 2008 until the beginning of 2011, according to the authors, occurred due to a decrease in the incomes and purchasing power of residents, see Fig.3.

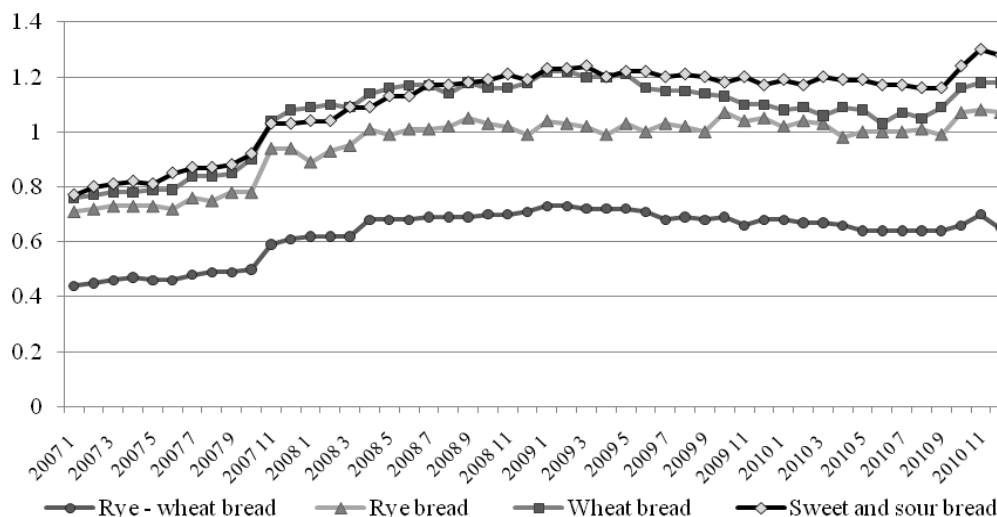


Source: constructed by the authors

Fig.3. Factors causing changes in supply and demand in the bread market

During the economic recession, the incomes of residents and at the same time their purchasing power declined. It caused a decrease in demand. In Fig.3, the initial demand for bread is shown by curve D_0 . At this demand, Q_0 units of bread are sold for price P_0 per unit. Yet a decrease in demand was caused by a shift of curve D_0 to the left. In the new situation, the demand for bread is shown by curve D_1 ; Q_1 units of bread are sold for price P_1 per unit. A decrease in demand, a decline in prices of raw materials, for instance, flour, and the bankruptcy of some bread producers (Žanis Lagzdiņš bakery in Rīga, Jēkabpils Bread Factory, “Zelta kliņģeris” in Vārme in Kuldīga district, “Zelta dona”, as well as “JLM Grupa”) caused a decrease in supply in the Latvian bread market. Initially, supply curve S_0 shifted to the right, therefore, the quantity sold decreased from Q_1 to Q_2 and the price of bread increased from P_1 to P_2 . Since October of 2010 in Latvia, a decrease in the supply mentioned above is observed, which caused a decrease in the sales of bread and a rise in the price of bread.

The authors conclude that the prices of bread sharply changed in Latvia in the period 2007–2011. The weighted monthly average prices of rye-wheat bread, rye bread, wheat bread, and sweet and sour bread (seasonal corrections excluded) from January of 2007 to December 2010 are graphically presented in Fig.4.



Source: constructed by the authors according to Consumer Prices No. 21–36

Fig. 4. Average monthly prices of bread in the period 2007–2010, LVL/kg

Fig. 4 shows that in the beginning of 2007, the highest price was observed for sweet and sour bread (0,8 LVL/kg), slightly lower prices were observed for wheat bread (0,77 LVL/kg), and rye bread (0,71 LVL/kg). In the beginning of 2007, rye-wheat bread had the lowest price (0,44 LVL/kg). The distribution of prices did not change at the end of 2010 – sweet and sour bread was the most expensive (1,28 LVL/kg) followed by wheat bread (1,18 LVL/kg), whereas rye-wheat bread was the cheapest (0,65 LVL/kg).

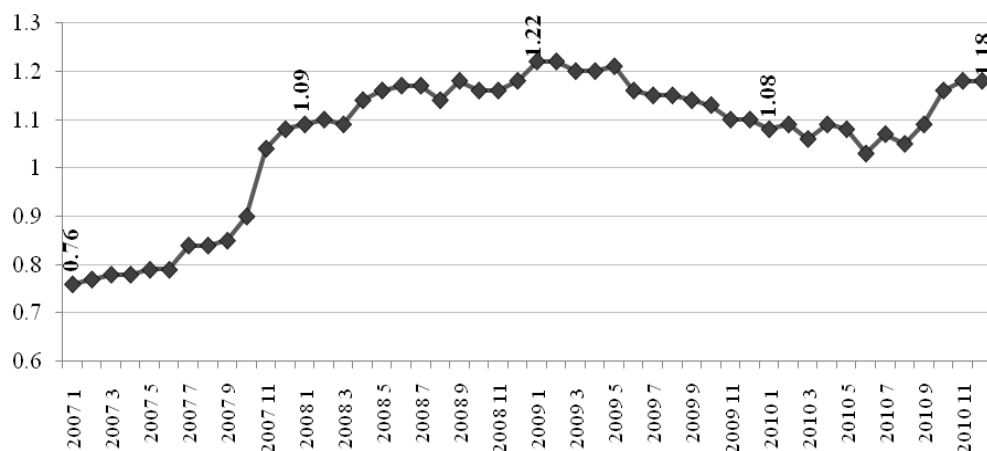
According to the authors' estimates, the price of sweet and sour bread rose by 0,48 LVL/kg or 60%, the price of wheat bread – 0,41 LVL/kg or 53%, the price of rye bread – 0,35 LVL/kg or 51%, and the price of rye-wheat bread – 0,21 LVL/kg or 48% over the recent four years if bread prices observed in December of 2010 are compared with those in January of 2007. Thus, the sharpest price increase was observed for sweet and sour bread, while the smallest – for rye-wheat bread. The price hike was very large from January of 2007 to June of 2008, i.e. 54,5% for rye-wheat bread, 51,9% for wheat bread, 46,8% for sweet and sour bread, and 32,9% for rye-wheat bread, which can be explained by the reaction of bread producers on an increase in demand, a rise in population incomes, and a price hike of raw materials.

Yet in the period from July 2008 to September of 2010, an increase in bread prices was small or even a decrease in bread prices was observed – the price of rye-wheat bread fell 7,2%, the price of wheat bread – 6,8%, the price of rye bread – 2%, and the price of sweet and sour bread declined by 0,9%. From the middle of 2008 to the end

on 2010, the price increase rates for bread were negative, which means that the prices of bread mostly fell. The decrease in bread prices was caused by several factors:

- average grain purchase prices declined from LVL 100,06 per ton in 2008 to LVL 73,25 in 2009 (Šteinfelde I., 2010);
- an increase in the rate of unemployment in Latvia;
- wage cuts both in the private and in the public sector;
- a decrease in the purchasing power of residents;
- a wave of emigration of residents abroad.

Wheat bread or white bread is the second most popular sort of bread in Latvia. Its price changed in Latvia from 2007 to the end of 2010 due to various reasons, see Fig.5.



Source: constructed by the authors according to Consumer Prices No. 21–36

Fig.5. Average monthly prices of wheat bread in the period 2007–2010, LVL/kg

The price of wheat bread changed by 43.4% in 2007, 11.9% in 2008, 11.5% in 2009, and by approximately 9.3% in 2010 (authors' estimate). The authors examined whether seasonality impacts the price of wheat bread, i.e. whether the price of wheat bread tends to change any direction in a particular month. A regression model was developed in which it was ascertained by computing P-values whether time t and months impact prices of wheat bread. The following equation was obtained:

$$y_t = \alpha_0 + \lambda t + \alpha_{11}m_{1t} + \alpha_{21}m_{2t} + \alpha_{31}m_{3t} + \alpha_{41}m_{4t} + \alpha_{51}m_{5t} + \alpha_{61}m_{6t} + \alpha_{71}m_{7t} + \alpha_{81}m_{8t} + \alpha_{91}m_{9t} + \alpha_{101}m_{10t} + \alpha_{111}m_{11t} + e_t \quad (3.1.)$$

or

$$y_t = 0,946 + 0,006t - 0,028m_{1t} - 0,027m_{2t} - 0,046m_{3t} - 0,032m_{4t} - 0,031m_{5t} - 0,06m_{6t} - 0,046m_{7t} - 0,065m_{8t} - 0,051m_{9t} - 0,035\alpha_{101}m_{10t} - 0,009m_{11t} + e_t. \quad (3.2.)$$

The following hypotheses were set forth:

- $H_0: \lambda = 0$ (time does not significantly impact the weighted average prices of wheat bread);
- $H_1: \lambda \neq 0$ (time significantly impacts the weighted average prices of wheat bread).

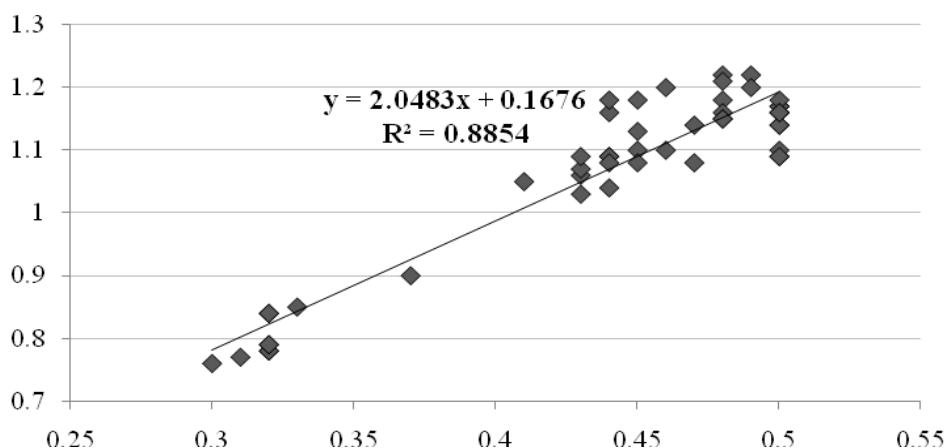
Since $P\text{-value} = 0,00004 < \alpha = 0,05$, H_0 is rejected and H_1 is accepted. With a probability of 95%, one can assert that time t significantly impacts the weighted average prices of wheat bread.

The other hypotheses were also examined:

- $H_0: \alpha_1 = 0$ (the first month does not significantly impact the weighted average prices of wheat bread);
- $H_1: \alpha_1 \neq 0$ (the first month significantly impacts the weighted average prices of wheat bread).

Since $P\text{-value} = 0,75458 > \alpha = 0,05$, H_0 cannot be rejected. With a probability of 95%, one can assert that the first month does not significantly impact the weighted average prices of wheat bread. The authors examined the impact of other months on the weighted average prices of wheat bread and concluded that in all cases $P\text{-value}$ is greater than $\alpha = 0,05$. The examination of seasonality shows that the prices of wheat bread do not tend to change any direction in a particular month.

To a great extent, changes in the price of wheat bread are affected by the price of wheat flour. To investigate the impact of the price of wheat flour on the price of wheat bread, the authors developed a correlation diagram in which independent variable x is prices of wheat flour and dependent variable y is prices of wheat bread. The result obtained is shown in Fig.6.



Source: constructed by the authors according to Consumer Prices No.21–36

Fig.6. Correlation between the prices of wheat flour and wheat bread

The authors used the monthly prices of wheat flour and bread for the period 2007–2010. The following single-factor regression equation was obtained: $y = 0,1676 + 2,0483x$. Determination coefficient $R^2 = 0,8854$ indicates that the model explains 88,5% of the variations of dependent variable y . From the equation obtained, it was found that:

- if a price of wheat flour rises by 1 santim per 1 kg, the price of wheat bread increases by approximately 2 santims per 1 kg;
- if a price of wheat flour falls by 1 santim, the price of wheat bread decreases by 2 santims.

Of course, not only the price of wheat flour impacts the price of wheat bread, but also the retail policy of enterprises, energy costs, labour costs, and other factors. The authors believe it is of great importance that both bread producers and bread sellers and consumers know how a price of bread forms and what impacts changes in a price of bread.

The financial situation of an enterprise, its incomes and expenses, to a great extent, determine its marketing strategy and prices for a certain product.

As it was found before, the main indicators impacting a price are demand, competition, and cost. To analyse bread prices, the authors used production costs. It was based on previous researches on bread prices in Latvia. The Latvian Baker Society found in 2010 that a price of bread on a shelf in a store (price components as a percentage) consists of:

- 1) raw materials 29,7% (including flour 10,7%);
- 2) wages, including the social tax, 10,7%;
- 3) discounts for retail networks 0–20%;
- 4) production maintenance 5%;
- 5) depreciation 3,7%;
- 6) energy 4,3%; (4% in the text)
- 7) bread producer profit before taxes 5%;
- 8) cost of retailing 16,3%;
- 9) transportation 8%;
- 10) value added tax 17,3%. (Graudiņš U., 2010)

A retail price is composed of the price set by a producer (or a wholesale organization) and the cost of retailing, i.e. the cost and profit of a retail enterprise. The Latvian Baker Society points that the largest part of the retail price of bread in Latvia in 2010 was composed of the value added tax (17,3%) and the cost of sales (16,3%). The smallest part of it consists of depreciation (3,7%), production maintenance (5%), and a bread producer's profit before taxes that accounts for only 5% of a total price of bread.

Although the structure of bread price computed by the Latvian Baker Society is precise and justified, yet the authors believe that it has to be taken into consideration that both prices of inputs and costs of sales and the rate of value added tax change

over time, therefore, the structure of bread price has to be approximate – price intervals for its items have to be set.

If an enterprise uses raw materials of higher quality bought at a higher price, the total price of raw materials is also higher. The quality of raw materials is the responsibility of bread producers. If an enterprise is oriented towards production of cheaper bread, it prefers cheaper raw materials, whereas if a producer wants to attract customers not with a low price of bread, but bread of high quality, it prefers more expensive raw materials of better quality. Other raw materials for bread – yeast, fats, sugar, syrup, milk, malt, bran, seeds etc. – and packaging account for 9 to 12% of the retail price of bread.

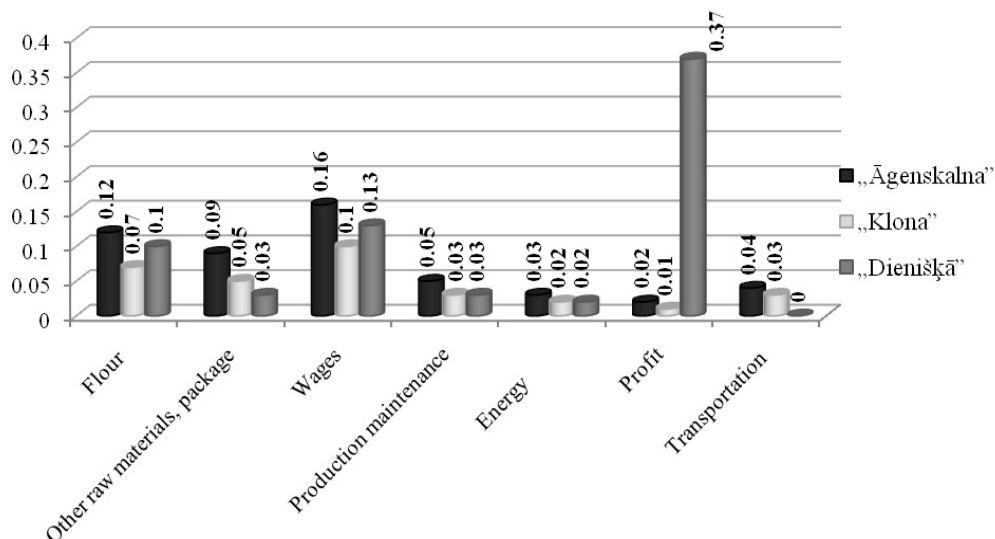
Approximately 23,5 to 40% of the retail price of bread consists of production costs that depend on the technical condition of a bread facility. For instance, if a bread enterprise's equipment is morally and technologically obsolete, its premises are not fully exploited, and if its equipment is not exploited at full capacity, a number of employees is inappropriate, and its administration staff is too large, the production costs are higher. The largest part of production costs is wages of employees that account on average for 15 to 18% of the retail price of a loaf of bread. As regards wages of employees of bakeries, D. Kunkulberga points that wages in Latvia are almost twice as low as in other European countries, yet productivity in these countries is three times higher. (Kunkulberga D. et.al., 2010) Of the other production costs, approximately 12% is related to production maintenance, social security cost, communication, depreciation, but not less than 3 to 4% is the cost of energy used in production. The largest part of bakeries in Latvia exploits natural gas for their bread ovens, and only in a few cases their oven is heated by electricity or diesel fuel. An increase in the gas price, too, impacts a rise in the price of bread. A profit of bread producers accounts for only 0,5 to 5% of the price of bread.

According to the estimates of bread producers, the largest part of the retail price of bread is made up of selling costs (41–62%). A large item of costs is the value added tax, the rate of which was raised from 21 to 22% in 2011 and the cost of sales for retailers. The selling costs also include transportation accounting for 4 to 6% of the price of bread. Bread transportation costs are impacted both by fuel cost and cost of transportation services.

An important indicator impacting price formation is costs at an enterprise. The authors analyse the impact of various costs at an enterprise by applying the structure of retail price for products of an enterprise. The structure of retail price allows us to find out what impacts a price of bread and to what extent it is impacted as well as points at the factors, the adjustment of which can change a price according to bread producer interests.

By comparing price structures of the cheapest wheat bread of each bakery, i.e. white bread brand “Āgenskalna” produced by JSC “Hanzas maiznīca”, white bread brand “Klona” from “Fazer maiznīca” Ltd, and white bread brand “Dienišķa” from Rimi bakeries, the authors summarized the data obtained in Fig.7 in which the costs of

inputs (flour, other raw materials, and package), production costs (wages, production maintenance, energy, producer profit before taxes) and transportation cost are shown.



Source: constructed by the authors according to their estimates

Fig.7. Component parts of retail prices for wheat bread brands “Āgenskalna”, “Klona” and “Dienišķā” in 2010, LVL/kg

After analysing the costs of inputs, production, and transportation that are included in the price of wheat bread, the authors conclude that:

- the highest costs of flour and other raw materials are specific to JSC “Hanzas maiznīca” that produces wheat bread brand “Āgenskalna”, while “Fazer maiznīca” spends least on flour per one kilogram of bread in producing white bread brand “Klona”;
- the lowest costs of other raw materials and package per one kilogram of wheat bread is observed for Rimi bakeries;
- Rimi bakeries gain a pre-tax profit of LVL 0,37 per one kilogram of wheat bread brand “Dienišķā”, while “Fazer maiznīca” Ltd gains the lowest profit (LVL 0,01) from selling wheat bread “Klona”;
- lack of transportation cost, low costs of production maintenance and energy guarantee a high profit for bread baked at Rimi bakeries.

Most often, Latvian bread producers use the price formation method “average cost plus profit” for setting their bread prices. The cost of producing a kilogram of bread is found by using the retail price structure for wheat bread brands “Āgenskalna”, produced by JSC “Hanzas maiznīca”, “Klona” from “Fazer maiznīca” Ltd, and “Dienišķā” from Rimi hypermarket bakeries, see Table 2.

Table 2

**Retail price componet parts for wheat bread brands “Āgenskalna”,
Klona”, and “Dienišķā” in 2010, LVL/kg**

| Price componet parts | Āgenskalna | Klona | Dienišķā |
|------------------------------|-------------------|----------------|-----------------|
| Flour | 0,12 | 0,07 | 0,10 |
| Other raw materials, package | 0,09 | 0,05 | 0,03 |
| Wages | 0,16 | 0,10 | 0,13 |
| Production maintenance | 0,05 | 0,03 | 0,03 |
| Energy | 0,03 | 0,02 | 0,02 |
| Transportation | 0,04 | 0,03 | 0,00 |
| Total (ATC): | Ls 0,49 | Ls 0,30 | Ls 0,31 |

Source: data obtained by Bertašus D. at a store of JSC “RIMI Baltic Gruop” and the authors’ estimates

Table 2 presents the costs of producing a kilogram of wheat bread. In this case, total cost TC to produce a kilogram of bread matches average total cost ATC, as $ATC = TC : Q$, but Q (bread units, kg) in this case is 1. To produce a kilogram of bread, the average total cost ATC is LVL 0,49 for bread brand “Āgenskalna”, LVL 0,30 for bread “Klona”, and LVL 0,31 for bread “Dienišķā”.

To calculate wholesale and retail prices, a formula is used:

$$\text{Producer price } P = \frac{ATC}{(1 - \text{premium})}$$

A bread producer obtains price P, at which bread is offered to retailers, by dividing average total cost by (1 – premium). A premium is profit of a bread producer, which is bread price P, at which retailers purchase bread from a bread producer, minus total cost. A bread producer can set any amount of premium for its products, see Table 3.

Table 3

Producer prices for wheat bread brands “Āgenskalna”, “Klona” and “Dienišķā” depending on an amount of premium in 2010, LVL/kg

| Premium | Āgenskalna | Klona | Dienišķā |
|----------------|-------------------|--------------|-----------------|
| 0% | 0,490 | 0,300 | 0,310 |
| 1% | 0,495 | 0,303 | 0,313 |
| 2% | 0,500 | 0,306 | 0,316 |
| 3% | 0,505 | 0,309 | 0,320 |
| 4% | 0,510 | 0,313 | 0,323 |
| 5% | 0,516 | 0,316 | 0,326 |
| 10% | 0,544 | 0,333 | 0,344 |
| 20% | 0,612 | 0,375 | 0,388 |
| 30% | 0,700 | 0,429 | 0,443 |

Source: estimates made by Bertašus D.

If a premium of 2% is set for bread by its producers, the producer price is 0,50 LVL/kg for bread “Āgenskalna”, 0,31 LVL/kg for “Klona”, and 0,32 LVL/kg for “Dienišķā”. Approximate retail prices for bread can be computed by adding a cost of retailing (30% of retail price for bread) and the value added tax rate (21%) to a producer price.

To find out the correspondence of wheat bread brands “Āgenskalna” from JSC “Hanzas maiznīca”, “Klona” from “Fazer maiznīca” Ltd, and “Dienišķā” from Rimi bakeries to the wishes and demand of consumers, the method of consumption value based on values of the consumption effect was applied.

Within the present research, a survey of bread consumers was conducted, the main goal of which was to ascertain:

- bread value factors or bread properties that are the most important for consumers;
- consumer ratings for wheat bread brands “Āgenskalna”, “Klona”, and “Dienišķā”, taking into account certain factors of bread value.

The authors surveyed 150 consumers of wheat bread brands “Āgenskalna” from JSC “Hanzas maiznīca”, “Klona” from “Fazer maiznīca” Ltd, and “Dienišķā” from Rimi bakeries who rated, in terms of importance, bread properties: taste, quality, external appearance, for instance, package, colour etc., and availability to consumers.

The authors computed the ratings of bread value by taking into account the respondents’ answers. The total rating of all the factors is assumed to be 1. The more important is a factor, the higher is its rating of value, see Table 4.

Table 4

Interrelationships between the ratings of wheat bread brands “Āgenskalna”, “Klona” and “Dienišķā” and the method of consumption value

| Ratings of bread value given by buyers | Product properties | Comparable ratings of factors for bread | | |
|--|--|---|---------|------------|
| | | “Āgenskalna” | “Klona” | “Dienišķā” |
| 0,340 | Taste | 399 | 345 | 339 |
| 0,175 | External appearance (package, colour etc.) | 423 | 342 | 312 |
| 0,195 | Availability to consumers | 351 | 369 | 306 |
| 0,290 | Quality | 504 | 348 | 336 |
| 1,000 | Bread value (points) | 424 | 350 | 327 |

Source: developed and estimated by Bertašus D.

According to a consumer survey, the authors found that 51 in 150 individuals prefer bread’s taste, 44 in 100 – bread’s quality, 29 – bread’s availability, and 26 – its external appearance. A value of the consumption effect of a good is obtained by multiplying each factor’s rating by the corresponding rating of value of a good given by consumers and by summing up the result. The value of the consumption effect of wheat bread brand “Āgenskalna” produced by JSC “Hanzas maiznīca” is as follows:

- $0,34 \times 399 + 0,175 \times 423 + 0,195 \times 351 + 0,29 \times 504 = 424$.

The value of the consumption effect of wheat bread brand “Klona” produced by “Fazer maiznīca” Ltd is as follows:

- $0,34 \times 345 + 0,175 \times 342 + 0,195 \times 369 + 0,29 \times 348 = 350$.

The value of the consumption effect of wheat bread brand “Dienišķā” produced by Rimi hypermarket bakeries is as follows:

- $0,34 \times 339 + 0,175 \times 312 + 0,195 \times 306 + 0,29 \times 336 = 327$.

Given the computed values of the consumption effect, the authors conclude that the highest price can be set by JSC “Hanzas maiznīca”, as the consumption effect of wheat bread brand “Āgenskalna” will be the highest among the brands of bread examined. The lowest price has to be set for wheat bread brand “Dienišķā” produced by Rimi hypermarket bakeries, as its consumption effect will be the lowest.

By assuming the average price of bread as a reference price, i.e. wheat bread brand “Klona” produced by “Fazer maiznīca” Ltd – 0.63 LVL/kg, it is possible to compute an optimal retail price, from the point of view of consumers, for the other brands of bread. The price of wheat bread brand “Āgenskalna” produced by JSC “Hanzas maiznīca” is computed as follows:

- $0,63 \times (424 : 350) = 0,76 \text{ LVL/kg}$.

The price of wheat bread brand “Dienišķā” produced by Rimi hypermarket bakeries is computed as follows:

- $0,63 \times (327 : 350) = 0,59 \text{ LVL/kg.}$

The retail price of wheat bread “Āgenskalna” is 1.05 LVL/kg, but, taking into consideration its rating of consumers, this price has to be lower – 0.76 LVL/kg. The price of wheat bread “Dienišķā” in Rimi hypermarkets is 0.86 LVL/kg, but its price has to be 0.59 LVL/kg according to the ratings of buyers.

After analysing the main factors impacting price formation for the bakeries of JSC “Hanzas maiznīca”, “Fazer maiznīca” Ltd, and Rimi hypermarkets, the authors came to a conclusion that:

- the enterprises’ marketing goals are related to increasing or retaining their sales of goods, which means that they tend to set as low prices as possible to attract customers;
- since the enterprises’ marketing goals are similar, their marketing strategy is also the same – a price promotion strategy;
- under monopolistic competition, the bread producers set an attractive price for their products and supplement it with marketing activities – advertising, discounts, attractive packages etc.;
- in case the demand for bread is elastic, a price of bread is set taking into account whether a price cut will attract new buyers, how and to what extent the price has to be reduced, or whether a price rise and quality improvement will be more effective than a price cut for bread.

Conclusions

- 1) The bread producers in Latvia are located according to population density, as they can reduce their product transportation cost and delivery time in this way, besides, it is easier to find an adequate labour force if located closer to populated places.
- 2) In Latvia, the bread market is abandoned by medium-size bakeries, but their place is occupied by the industrial bread producers – JSC “Hanzas maiznīca”, “Fazer maiznīca” Ltd, and JSC “Maiznīca Dinella” –, hypermarket bakeries, producers of niche products, and small bakeries.
- 3) The causes of a decrease in the consumption of bread products in Latvia over the recent years are a decrease in the number of residents, relatively high prices of bread, a decrease in the incomes and purchasing power of population, substitution of bread with other products, change in the consumption behaviour of population, as well as an increase in the sales of bread baked at supermarkets which is not included in statistical data.

- 4) The bread market in Latvia can be regarded as a market of monopolistic competition, as the supply-side and the demand-side are represented by a large number of market participants, goods are not homogenous, and goods are easily substituted, i.e. the demand for bread is elastic.
- 5) The increase in bread prices in Latvia in the period 2007–2008 was caused by the economic boom, higher population incomes, greater demand, smaller savings, increases in prices of raw materials and grains in the world market, however, the decrease in bread prices from the middle of 2008 to the end of 2010 was caused by an increase in the rate of unemployment in Latvia, wage cuts both in the private and in the public sector, a decrease in the purchasing power of residents, a wave of emigration of residents abroad, and deflation in the country.
- 6) The consumption of bread can be promoted by bread producers, reducing their costs and offering lower bread prices to retailers, by retail enterprises, reducing their cost of retailing and offering discounts, as well as by the national government, reducing the rate of value added tax for basic consumption goods, for instance, bread.

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ICT AND COOPERATION BETWEEN NGOS AND UNIVERSITIES IS A POSSIBILITY TO BECOME SOCIALLY MORE ACTIVE

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Abstract

The present article deals with analysis of the connection between the processes of social exclusion of elderly people and their informational practices. The authors present the results of the research carried out in Russia, Belarus, Lithuania, Denmark and Sweden. The pensioners who were participants of the research were only members of social organizations. It is important to know how do pensioners use the Internet and for what purposes. It was found out that the spectrum of used possibilities is very wide. Informational inequality could be overcome by education and active participation of the pensioners in the processes of communication. This article presents the results of the research dealing with pensioners and their informational practices, which are considered as “practices of adaptation” and allow pensioners to be included to the modern society.

The aim of the research: To analyze the informational practices of elderly people from Russia, Belarus, Lithuania, Denmark and Sweden.

The tasks of the research are to:

- 1) determinate the aging and social exclusion;
- 2) present the results about the informational practices of elderly people from Russia, Belarus, Lithuania, Denmark and Sweden.

Keywords: *Unemployed elderly people, social spheres, computer and informational literacy, educational program, social comprehension, social exclusion, socialization, unemployment compensation, employment of population, social funds, review of questionnaires, non-governmental organization and pension system.*

Aging and Social Exclusion

The investigation of elderly people's social problems is one of the main issues of modern society. The increasing number of old age people and different extents of their failure to interact within society and within different social spheres are evident. These failures to interact lead to breaks in many social connections and the displacement of elderly people from social activity, i.e., social exclusion. Many authors argue that in contemporary society, the legislatively formed and widely considered main social right – retirement, is the first step towards the “social descending” of a person and his/her displacement to the roadside of the society. It's possible to object that such important social achievements as pensions and systems of social services for elderly people, including social work with them, have been developed to increase the standard of people's living in old age. However, these approaches to social protection/social services for the elderly, which were developed more than 100 years ago (for example, the first pension system developed on the basis of obligatory social insurance was established in Germany in the epoch of Bismarck, i.e., in 1883), have now become appreciably outdated because the society has changed considerably.

There are incommensurably less people occupied with heavy physical work in industry or agriculture, but many more are occupied in offices or in the sphere of services where working conditions are physically much more comfortable. The parallel developments of medicine and improvement of living conditions for a considerable part of society have led to the reduction of the epidemics of infectious diseases, which used to “mow people down” and reduce average life expectancy. Accordingly, the generation of elderly people has increased, their health has improved and values have changed. Modern elderly people wish to live interesting lives and be respected among their close circle. More and more often the elderly do not retire, but continue to work.

It is considered that the ageing of the population demands fast development of social service systems for the elderly and increased financial investment in medicine, etc. However, it is necessary to keep in mind the point of view that the social welfare system knowingly considers a number of groups to be weak or requiring help. But as the social status of the profession and the professional success of the specialists depend on this understanding, social work often emphasizes the problems and aggravates the conflicts.

The processes of social exclusion in contemporary society are usually connected primarily to losing a job/unemployment. Thereby, the pensioners, who in the article are named as those who have retired, are, because of the aging population, a large and fast socially excluded group. Elderly people who keep working at the pension age in this context are not named as pensioners and cannot be considered as socially excluded.

This article presents the results of the research dealing with pensioners and their informational practices, which are considered as “practices of adaptation” and allow pensioners to be included in the modern society. Recognizing the priority of physical

access to informational infrastructure, we have elaborated the questionnaire and coordinated it with all the participants of the project as far as possible. The questionnaire was directed at investigating the possibilities of having access to informational networks (world) by the elderly people from Russia, Belorussia, Lithuania, Denmark and Sweden. The authors planned to interview 50 elderly people from each country and it was decided to define the elderly people as people who are at the pension age (or older) and have retired (we should emphasize the different pension age in different countries). Public work in any organization of the third sector was an important criterion for inclusion. A sample of 50 people hardly meets any requirements of representation, nevertheless, it gives the chance, by correlating it with the active members of public organizations of the elderly, to see “in the first approximation” the provision of IT to elderly people and the skills they possess to use it.

The majority of the survey participants were women and this is correlated with the gender structure of public organizations for elderly people. There were exactly 50 participants from Lithuania. The Danish elderly people were the oldest among the respondents. We also didn't specify if the personal computer is in the apartment/family of the respondent, or if he/she uses it individually. Thus 268 questionnaires were processed from Russia, Belarus, Denmark, Sweden and Lithuania.

Analysis of Situation about ICT for Seniors in Lithuania

Unemployment is one of the most important problems of this time not only in Lithuania but all over the world. Unemployment interferes with the social development of a person, reduces his/her opportunities, activity and increases isolation from the society.

The world economic crisis which started in 2008 has made big influence on the Lithuanian labour market. According to the data of the Lithuanian Labour Exchange, the unemployment rate in Lithuania in 2010 was 17,9%. Every eight person of those registered in the Labour Exchange is a young person (under 24 years old). According to the unemployment rate among young people, Lithuania yields only to Latvia (42,7%) and Spain (43,8%).

The main goals of the government's employment policy should be to:

- attract and retain as many people as possible to the labour market;
- promote an attitude towards work as a life-long circle and increase work attraction;
- modernize the labour market, increase flexibility of labour relations and employment guarantees, strengthen the role of social partners;
- ensure the correspondence between work force demand and supply, increase and develop investment into the human capital.

Social separation nowadays is recognized as one of the biggest social problems, and a significant part of the people of our country has faced the problem of social separation

due to one or another reason. Therefore, it is very important to integrate socially vulnerable groups – people of pre-retirement age – into business and social activities. In Lithuania, like in other modern European societies, competition in the labour market provides people with big opportunities to choose. However, the unemployed of a younger age face special problems of employment. Employers of Lithuania as well as those from other countries have been gradually raising the level of requirements for knowledge and experience of the potential employees.

In the review of the economic and social situation in the Republic of Lithuania, the following problems were mentioned in 2010:

- isolation from information society in certain social groups (e.g., elderly people, residents of townships and rural areas as well as low-income individuals);
- the number of long-term unemployed individuals in Lithuania during 2008–2009 was predominated by female and individuals aged over 50. Women account for almost 70% and person's at the age over 50 – for 51% of the long-term unemployed.

The solution to this problem is to develop an electronic infrastructure (in particular in periphery and uncompetitive areas) and content, as well as to implement the general computer literacy programme. In these areas the scientists of the Faculty of Social Sciences of the Kaunas University of Technology and NGO “Elderly Women's Activity Centre” are working.

The scientists of the Kaunas University of Technology, the Faculty of Social Sciences and the NGO “Elderly Women Activity Centre” work according the European Union project “Integration of Socially Discriminated Elderly Women into the Labour Market”. For the qualification improvement courses, those elderly unemployed women have been selected who are registered at the Kaunas Labour Stock, have high education and wish to find a job, i.e., the persons willing to use their knowledge in practice. The scientists of the Kaunas University of Technology and partners from Denmark, the United Kingdom, Poland, Finland, Spain and Hungary are also participating in the Lifelong Learning Programme “Golden-Age”. The Lithuanian experience started from obtaining the practical skills prior to theoretical knowledge, i.e., from raising a problem up to its solution. The module structure of the course program was highly assessed, as well. And the responses of the participants of the courses of computer literacy were especially favourable. After the courses, the following methodical materials were prepared: “Lessons of Computer Literacy for Elderly People”, “Practical Assignments of Business Plan Preparation for the People Starting their Business”, “Basics of Work with a Computer for the Elderly People”, “Search for Work: Theoretical and Practical Aspects”, “E-Banking: Theory and Practice”, “Unemployment of the Elderly People and its Solution Ways” and “Today I Became Unemployed. What's Tomorrow?” and the scientists' articles: “The Role of Universities in Stimulating the Integration of the Socially Discriminated People into

Business (Business College of Western Lithuania), “The Role of Education Programs for Small and Medium-sized Business” (Folia Universitatis Agriculture Stetinensis, Oeconomica).

At present, 21400 unemployed people are registered in the Kaunas Labour Stock, among them 9850 (57,4%) are elderly women (over 45). According to the information presented by the Kaunas Labour Stock, twice as many elderly women even do register at the Labour Stock because, practically, they are not offered any job corresponding their age and qualification. Introduction of modern science and technology achievements, new production and work methods, young, dynamic and well-prepared employees push out older people from the labour market. Regardless of the state policy that is directed at mitigation of difficulties related with consequences of unemployment for the elderly, but still able-bodied people, it is possible to assert that the life quality of such people is poorer than that of working coevals.

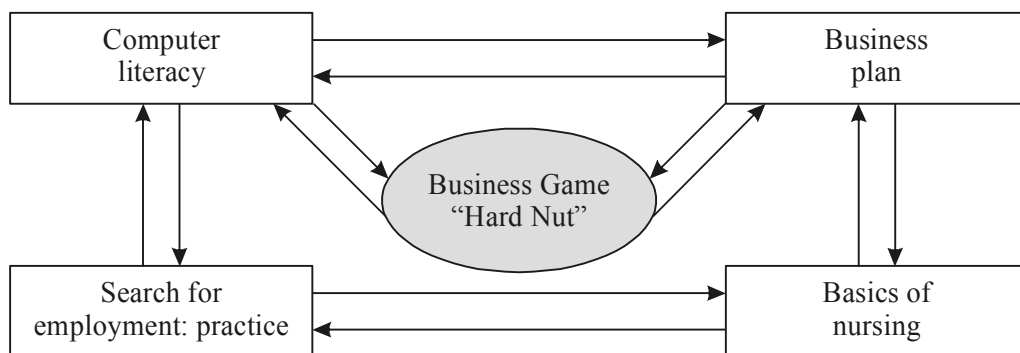
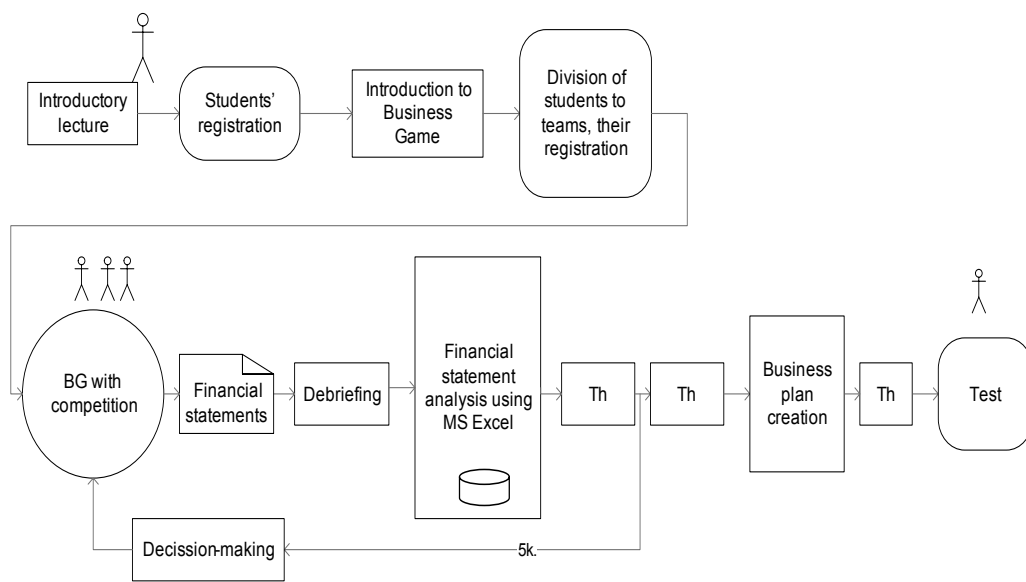


Figure 1. Model of Complex Teaching of Socially Discriminated People

The unemployed socially discriminated people, who have computer knowledge, are learning about preparation of a business plan for the ones wishing to start their own business and use the knowledge in business game “Hard Nut”. People learn how to search the job and obtain the information about surfing the Internet.

The game structure lets teachers apply “Hard Nut” in several ways.

- By integrating theory and simulating business game. This game is as an instrument for teaching process in order to extend knowledge or to illustrate theory.
- By using simulating business game as an integrator of teaching modules. When there are modules that are related with each other because of the same knowledge, skills or course’s work, this game can be adopted according to specifics of professional influence.
- By using simulating business game for getting the theory background (from practice to theory). It is applied this way when it isn’t necessary to extend theoretical knowledge, but it is useful to get the basic understanding.



* *Th- theory*

Figure 2. Scenarios of Using the Business Game in Unformed Studies of Complex Teaching of Socially Discriminated People

The application of such multidimensional simulating business game allows teachers to choose this instrument for courses of heightening qualification or for teaching the elderly people.

According to the aim of teaching, there can be several scenarios for application. Figure 2 shows the way this business game was applied for teaching the elderly people how to use a computer and prepare a business plan. This scheme illustrates the third way for application of the business game. In other words, the main knowledge that people get comes from practical work but not from theory lectures. At the same time, the elderly people acquire computer skills and extend their knowledge about getting the business plan started.

Results of Research about ICT for Seniors from Russia, Belarus, Lithuania, Denmark and Sweden

The majority of the respondents consisted of the people aged between 60–65 years, but groups aged 66–70 and 71–80 were also rather large. Many participants were more than 80 years old – 31 out of 48 people, mainly because of the participants from Denmark. A small number were younger than 60 and came mainly from Lithuania. Many people at the age of 60 still continue to work in the post-socialist countries and

in Denmark, where the pension age is now 67 years (it used to be 65). The most important question was: "Can you use a computer?" 141 respondent has answered positively, 117 – negatively and 10 respondents from the Danish sample haven't answered. It was predicted that a significant number of the elderly people from Belorussia would not be able to use a computer, as the majority of them don't have it. The dominance of the people who are able to use the computer in Lithuania can be explained easily by the fact that they have been trained in the same public organization where the survey took place. These respondents are younger than others. Respondents from Denmark take the highest place in the international rating for "Readiness for Informational World", 22 respondents out of 55 cannot use a computer, and additional 9 did not answer the question, so we can assume that it means that they also cannot. This surprising fact is most likely because in the Danish sample more than 5/6 of the people were older than 70 years, and age and IT skills in this instance are conversely connected.

We should also note that the results hardly reflect the situation in Russia, or even in St. Petersburg, as the members of the social organization "The School of the Third Age" were included in the sample, and members of this group have already studied, or are studying at the moment, how to use a computer, by participation in the programs of the School. Thus, we should compare our data with the data of the Agency of Social Information (ASI) collected in 2009. Despite different kinds of data structure, these researches are comparable because the ASI focused on the same age group which is of interest to us, but just divided it into 2 parts: 55–64 years old and 65 years or older, which made the difference between "young" pensioners and those, who are older than 65 years evident.

The answers to the question: "How often do you use the Internet resources?" were very different. We can see that about 1/4 of the respondents from Russia use the Internet every day or once a week. Respondents from Belarus do it more rarely, and the Lithuanian respondents more often than respondents in Denmark and Sweden. 95 respondents search for necessary information, 56 read the news, 83 correspond with friends, 36 communicate by Skype, 46 read books and periodicals, but only 2 respondents do their shopping on-line, 9 order medicine and 4 buy cheap flight tickets or tours. 3 respondents communicate in social networks, 11 pay for their phone connection, 9 transfer money, and 5 watch movies. Nobody invests in the stock market on-line or engages in other e-commerce. 19 respondents use electronic government services, e-vlast/egovernment, among them 16 Lithuanian women and 3 Danish. 14 respondents have marked "other" and 15 people haven't answered. The limited Internet use by the Russian respondents is appreciable. Among them 19 respondents search for information, 5 read the news, 7 use e-mail, 2 communicate by Skype, pay for phone connection and community services and 2 respondents do "other". It was doubly upsetting when we came to visit the social organization "The School of the Third Age". The activity of the Lithuanian pensioners again attracts attention because they learnt to use the Internet to communicate with relatives (Russian pensioners also often complain

about loneliness and social abandonment!) as well as for cultural requirements. The diversity of possible Internet use by pensioners from Denmark and Sweden looks natural considering the longer history of computerization in these countries.

We are asking: “What do you use the Internet for?” It is important to note that the public opinion in Russia overstates the extent of poverty and the dependence of elderly people. Especially because this social group joins the people aged between 55 to 90 + years, it is obvious that it’s extremely varied. More and more old people in different countries do not retire, and continue to work because an occupied life is simply more interesting and allows people be vivacious longer. It corresponds to tendencies of the developed countries, where the elderly people have the possibility to keep working and are provided with appropriate (flexible, part time) work conditions. However, in Russia, there is no demand for working elderly, or for educated elderly. The development of the information society in Russia has recently been aimed at the development of the export-oriented information sector and building of technoparks, as for the example seen in India. There was no attention paid to the development of the internal demand, first of all, to individual consumers of information services. That’s why not only the elderly are a risk group in our society, but also more widely the age group exceeding 40 years because the Internet education in schools and universities has become universal relatively recently. It has been pointed out that “concerning the place of citizens in the system of the information society, there cannot be different opinions. More and more public services are becoming electronic, operating only by ICT – the sale of train and airline tickets, social benefits and payments for vulnerable groups via plastic cards etc. It is possible to imagine how much money we lose. For example, when we buy medicine in the first drugstore without comparing information on the cost of the medicine in city-wide drugstores, or when we buy expensive goods in shops without looking at the Internet shops, which can often deliver goods at lower prices. These are only financial losses – it is almost impossible to estimate losses from lack of education, the missed vacancy of employment, etc.”. (Dyakova, Zadirako, Aigistov 2009)

Pensioners in Russia already take the organization of the online leisure into their own hands. Now there are the resources in Runet, created by people for their peers. On the site “pc-pensioneru.ru” users can learn the programs necessary for a full online life and find out that computers can be used for more than just playing cards and printing documents. Besides ordinary skills, the founder of the site Sergey Avdevnin (also pensioner – former military doctor) offers lessons on the website development. The first journal for an older generation of users “The Third Age” in Russian has been created in Runet (www.3vozrast.ru). Also, the proportion of the “after war generations of baby boomers” is rather large and this group is underappreciated as active Internet users all over the world. However, Americans older than 50 buy 41% of all new cars and spend 74% more than people aged 18 – 48 on travelling. Our opinion is that in the close future booking discount tours/tickets and other goods via the Internet will

become rather popular in Russia. Actually, it has been already remarked by marketologists. (Frolov 2008:75)

As the research carried out concerned not only access to computer and the Internet, but also access to the world of modern communication in general, we note that the ownership of TV, radio and phones is rather high in all countries. Ownership of home phones is low only in Lithuania, but perhaps lack of stationary phones is compensated by mobile phone, e-mail and Skype. Thus, informational inequality might be overcome by learning computer technologies and the active inclusion of pensioners in the communication processes that can be considered by social organizations working with them.

Conclusions

The modern stage of society's development is characterized by its wide use of computer equipment and new information technologies. Information technologies change the nature of business and interpersonal relations, essentially extending access to knowledge for all generations. In order not to find oneself in the outskirts of the society, a modern elderly person must have the knowledge and skills to work with information technologies. It is possible to assert that without such kind of knowledge and skills it's too difficult for elderly people to be socially included, get a job and make and keep partner relations with younger generations.

The article considers the connection between the processes of social exclusion of the elderly people and their informational practices. The results of the research on pensioners and their informational practices are presented. 268 questionnaires from Russia, Belarus, Lithuania, Denmark and Sweden were processed within the framework of the research. The sample consists not only of the members of social organizations. It is important to find out if pensioners use the Internet and for what purposes. It was found out that the spectrum of used possibilities is rather narrow. Information inequality could be overcome by education and the active participation of the pensioners in the processes of communication.

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WORKPLACES WITH STIPEND PROGRAMME IN LATVIA – SUSTAINABLE SOLUTION FOR PERSONS' INTEGRATION INTO LABOUR MARKET?

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Abstract

The aim of the paper is to provide theoretical analysis on sustainability of active labour market policy, and to particularly analyse the Measure “Workplaces with Stipend Programme”.

The research methods used in the paper are theoretical analysis and analysis of household survey results (comprising of persons' households involved in the Measure. Time period of statistical analysis mostly involve years 2009–2010.

The paper concludes that the Measure “Workplaces with Stipend Programme” is a sustainable solution for persons' integration into labour market, however, several changes in it would be welcome – e.g. reduction of the scholarship provided in frames of the Measure. Regardless to the fact that the money provided in frames of the Measure is below the minimum wage in Latvia, 10% of the persons participating in the Measure evaluate the Measure to be more welcome than permanent job – 11,7% of the persons participating in the Measure have stated that they would reject a permanent job offer during their participation period in the Measure and 3,8% have reported rejection of permanent job offers. At the same time the number of persons not participating in the Measure due to limited amount of places is considerable – 161 816 persons waited in the queue for participating in the Measure, and among them 12 559 persons waited in the queue for the reiterative participation in the Measure in 30 November 2010.

Keywords: *unemployment, active labour market policy, Workplaces with Stipend Programme*

Introduction

Unemployment level has increased considerably in Latvia in recent years, exceeding 14% in 2011 and leaving many persons with limited income and no jobs. Therefore active labour market policy measures should be used in order to promote persons' return to the labour market.

One of the tools for promoting employment is active labour market policy, introduced in Sweden in 1950-ies and widely used in other world countries, especially in periods of economic slowdown. (Bonoli 2010, Lalive & van Ours & Zweimuller, 2008, Gerfin, Lechner, Steiger, 2003)

There are several active labour market policy measures introduced by Latvia's State Employment Agency, inter alia carrier consultations, training courses, and working schemes, among them the measure "Workplaces with Stipend Programme" (hereinafter – the Measure). In frames of the Measure people work 40 hours per week on low qualification jobs, and receive monthly scholarship of Ls 100 (approximately EUR 150) for period of 6 months during one year. The number of people having participated in the Measure from 1 January 2009 till 29 May 2010 was 39216 (approximately 33% of the unemployed not receiving unemployment allowance). (State Employment Agency, 2010)

The aim of the paper is to provide theoretical analysis on sustainability of active labour market policy, and to particularly analyse the Measure "Workplaces with Stipend Programme".

The research methods used in the paper are theoretical analysis and analysis of household survey results (comprising of persons' households involved in the Measure. Time period of statistical analysis mostly involve years 2009–2010.

Subsidised Temporary Employment as a Measure of Active Labour Market Policy

Active Labour Market Policy (ALMP) can encompass very different policies, with respect to their objectives, the tools used, and the way they interact with passive unemployment compensation systems (Bonoli 2010: 435). Activation policies are commonly pursued across Europe but the level of conditionality attached to benefits varies and the level of policy attachment to social solidarity varies too (Scott 2005: 681). Evaluation of the effectiveness of ALMP is not easy because of potential selectivity in the inflow into ALMP. (van Ours 2007: 74) Subsidized jobs, both in the market sector and the government sector affect the job opportunities of unemployed workers because of the increased number of jobs available. (van Ours 2000: 2) ALMP has also been claimed to be a major but not sole way of tackling poverty, based on evidence that the association between unemployment and poverty amongst working age adults is a strong one (Walker & Wiseman, 2003: 34). Investment in ALMP seems to result in lower unemployment of low-skilled workers. (Oesch 2010: 40) E.g., over the past decade ALMP has been an integral part of the Labour Government's strategy for achieving employment opportunity for all, encompassing Welfare-to-Work programmes such as the various New Deals for the unemployed and the more recently introduced Pathways to Work for people with a disability. (Riley 2007: 65)

Whether we view ALMP from an economic, social or political perspective the inescapable logic of them is to get people out of unemployment and into work. But an even stronger logic behind ALMPs is to get those people into work who have experienced and continue to suffer from economic and social exclusion – that is, to focus on those geographical areas where unemployment is significantly and persistently above the national average. (Adams, Thomas 2007: 32) Activation may contribute to the sustainable inclusion of unemployed people in the labour market. But it may also act as an important factor in creating or strengthening a flexible labour market, without investing in the capabilities of activated people to realise more stable and secure labour-market participation in the long run. (van Berkel 2006: 28) ALMP may also result in higher income of persons.

The modern living wage movement critiques this financialized economy, reasserts “real economy” thinking, and supports the precedent-setting Australian wage-board standard that a minimum wage should support “the normal needs of the average employee regarded as a human being living in a civilized community”. (Waltman, 2000: 14)

ALMP is too broad a category to be used without further specification. (Bonoli 2010: 450) Subsidised temporary employment is one of the tools of ALMP to improve the chances of the unemployed to find permanent employment. (Gerfin, Lechner, Steiger, 2003: 29) While training programmes and employment programmes have no effect, temporary subsidised jobs have a positive effect on the job finding rate. (Lalive, van Ours, Zweimuller 2008: 236)

There are rather severe direct displacement effects, in the order of 65%, from subsidised employment programmes, but there seem to be no (significant) displacement effects from training. (Dahlberg, Forslund 2005: 492) Moreover, the closer a programme is to the regular labour market, the larger the displacement effects. (Calmfors et al., 2002: 45) It appears that the duration of the temporary jobs is an important determinant of the speed by which unemployed workers find regular jobs. In this sense shorter temporary jobs are more effective than long temporary jobs. (van Ours 2000: 13) A longer entitlement period lessens jobseekers’ incentive to accept a new job rapidly and thus increases the risk of becoming trapped in long-term unemployment. This risk may be particularly large for low-skilled and young workers because of the small net difference between unemployment benefits and expected earnings. (Oesch 2010: 42) It is only the first six months in which the transition rate is significantly higher than later on. Beyond six months the job finding rate is sort of constant. (van Ours 2000: 11)

For example, although there is some evidence that welfare-to-work programs can increase their effect on earnings by increasing the extent to which those enrolled utilize the job search services the programs provide, this result was not robust to the addition of other explanatory variables to the macro regressions. The number of other potentially important explanatory variables includes measures of client characteristics, site economic conditions, and program design, to see if it was possible to learn more

about why government-funded training programs are more successful in some sites than in others, but we were unable to obtain coefficients that are statistically significant at conventional levels. Learning more about why some programs have larger effects than others requires that steps such as those that follow be taken to obtain more reliable coefficient estimates. (Greenberg, et. al. 2003: 386)

ALMP measures differ among the states, therefore the next chapter is devoted to more detailed analysis of one the ALMP Measures widely used in Latvia – Workplaces with Stipend Programme.

Workplaces with Stipend Programme in Latvia: Evaluation from Sustainability Perspective

Due to the high unemployment level increase in Latvia, there are number of ALMP measures introduced, one of them being “Workplaces with Stipend Programme” (hereinafter – the Measure). In frames of the Measure people work 40 hours per week on low qualification jobs, and receive monthly scholarship of LVL 100¹ (approximately EUR 150) for period of 6 months during one year. The number of people having participated in the Measure from 1 January 2009 till 29 May 2010 was 39216 (approximately 33% of the unemployed not receiving unemployment allowance) (State Employment Agency 2010). The Measure was introduced in Latvia in September 2009 and will continue till December 2011. From January 2012 it will be replaced by the subsidized employment programme, however, will contain elements used in the Measure. Therefore the evaluation of Measure's effectiveness is necessary in order to draw suggestions for further ALMP improvement.

One of the discussions related to the Measure concerns the financing provided in frames of it. The financing provided in frames of the Measure is below the minimum wage in Latvia (LVL 200 gross or approximately or LVL 178 net in case the person has two dependants). Meanwhile the amount of the scholarship is also below the living wage that was LVL 172,28 in February 2011. However, the amount of scholarship is above the guaranteed minimum income – LVL 40 for adults and LVL 45 for children (regulation No. 1070 of 22 September 2009 by the Cabinet of Ministers). Taxes (e.g. the social tax) are not foreseen for the Measure.

Regardless to the low financing provided in the Measure, more than 11% of the persons involved in the Measure consider it more suitable than permanent job. More detailed household survey results are included in table 1.

¹ 1 EUR = 0,7028 LVL (www.bank.lv, 12.03.2011)

Table 1

Persons involved in the Measure opinions concerning their willingness to accept permanent job offer within two weeks

| | Number of participants | (%) |
|--------------|------------------------|-------|
| Yes | 1054 | 88,3 |
| No | 140 | 11,7 |
| Total | 1194 | 100,0 |

*Source: Household survey results November 2010 – March 2011
($n_1=1128$, however several household members may participate in the Measure)*

70% of the persons not interested to accept the permanent job offer state their participation in the Measure to be the main reason. Moreover, almost 4% of the persons involved in the Measure have rejected permanent job offers. More detailed data analysis is included in table 2.

Table 2

Persons involved in the Measure having rejected permanent job offer

| | Number of participants | (%) |
|--------------|------------------------|-------|
| Yes | 46 | 3,8 |
| No | 1165 | 96,2 |
| Total | 1211 | 100,0 |

*Source: Household survey results November 2010 – March 2011
($n_1=1128$, however several household members may participate in the Measure)*

Reasons for not accepting permanent job offer state than in almost 15% of cases the job offered has been too far (within territory of Latvia), in 3,2% of cases the job offered was outside Latvia, in 9,6% of cases the wage offered was too low, in more than 60% of cases the person indicated his involvement in the Measure as the main reason for not accepting the permanent job offer.

No concrete data are available on the number of persons having gained job after participation in the Measure, however, the survey results report 26,8% of the Measure participants who acknowledge their working skills to be increased due to participation in the Measure (in most cases these persons are without work experience or long-term unemployed persons). 1,5% of the respondents have noted that their working skills are smaller or even much smaller after participation in the Measure. Other persons report that there are no changes in their working skills due to participation in the Measure.

The data reflect the following problem – despite the low financing offered in frames of the Measure, the persons find it more appropriate than permanent work, in most cases –

due to the lower responsibility level and easier work tasks set in the Measure. Besides, there are many persons willing to participate in the Measure, but having no places available – there were 161 816 persons waiting in the queue for participating in the Measure, and among them 12 559 persons waited in the queue for the reiterative participation in the Measure in 30 November 2010.

Taking into account the afore-mentioned, it may be concluded that in future financing for participation in the Measure (or its equivalent) may be reduced – at first stage for the persons participating in the Measure for the second time (providing LVL 80 for the first three months and LVL 60 for the last three months). Moreover, for the persons participating in the Measure for the first time the scholarship level may be LVL 100 for the first three months and LVL 60 for the last three months.

Conclusions

Active Labour Market Policy was introduced in Sweden in 1950ies and from that time has been used by all the European Union states and number of world countries in order to return unemployed persons into labour market.

There are several ALMP measures, and they differ among countries. Generally the ALMP may be divided among carrier consultations, training and subsidized working schemes. Scientific works prove subsidized jobs to be more efficient tool for returning unemployed persons into labour market.

The greatest problem the countries often face is to set the support provided in frames of the ALMP, in order to guarantee the persons interest to get permanent jobs and not only to use the support provided in frames of the ALMP.

There are several ALMP measures introduced in Latvia, among them the most popular being the measure – Workplaces with Stipend Programme. People are entitled to work for 40 hours per week on simple jobs set by municipality and receive a monthly scholarship of LVL 100.

The Measure has attracted large interest 39216 persons have participated in the Measure in the time period of 1 January 2009 till 29 May 2010. 161 816 persons waited in the queue for participating in the Measure, and among them 12 559 persons waited in the queue for the reiterative participation in the Measure in 30 November 2010.

The Measure is a sustainable solution for the persons integration into labour market who hold no job experience or hold the status of long-term unemployed, especially in case they have secondary education level or lower.

Moreover, there are number of unemployed persons who find participation in the Measure to be a more favourable solution than permanent work.

Survey analysis reflect that more than 10% of the persons participating in the Measure evaluate the Measure to be more welcome than permanent job – 11,7% of the persons

participating in the Measure have stated that they would reject a permanent job offer during their participation period in the Measure and 3,8% have reported rejection of permanent job offers stating several reasons, among them reasons on participating in the Measure as well too low salary offered in frames of the permanent job being the most dominating.

The twofold problem arises – large number of persons willing to participate in the Measure is not able to do it due to limited number of places available, and moreover, persons participating in the Measure are often not in position to accept permanent job offers due to the more favourable conditions provided in the Measure.

To guarantee efficient and sustainable use of the Measure, in future financing for participation in the Measure may be reduced – at first stage for the persons participating in the Measure for the second time (providing LVL 80 for the first three months and LVL 60 for the last three months). Moreover, for the persons participating in the Measure for the first time the scholarship level may be LVL 100 for the first three months and LVL 60 for the last three months.

The financing provided in frames of the Measure shall be increased only in accordance to considerable wage (and the minimum wage in the first line) increase in Latvia.

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CONTINUING ADULT EDUCATION AND THE VALUE OF INNOVATIVE LEARNING

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Abstract

Introduction: A characteristic feature of innovative continuing adult education in Latvia is the willingness of people to participate.

Goal: To analyze the results of the learning process used in teaching entrepreneurs.

Materials and methods: Analysis of theoretical literature, interviews with 93 start-up entrepreneurs.

Results: The start-up entrepreneurs expressed great satisfaction with changes to their quality of life.

Conclusion: In order to ensure entrepreneurship, it is essential to support continuing education and self development.

Keywords: *experience, innovation, values.*

Nowadays one of the main preconditions for movement towards open, democratic and economically stable society is to form a society that learns and where lifelong learning is accessible for adults, so that they can act freely and in appropriate manner, assess situations comprehensively and from every point of view. Implementation of such a precondition is determined by international environment, suggestions and initiatives of various international organizations, as well as awareness of relativity of education levels in light of necessity for lifelong education and purposeful drive for one's development. Already in the year 1996, which was announced to be the year of lifelong education, the Council of the European Union first developed the strategy for lifelong education (Conclusions of the EU Council 1996). Since then, this idea has played an important role at both national and the European Union level. The document defines the two basic goals of lifelong education. They are: reinforcement of active citizenship and development of professional skills.

The achievement of these goals would guarantee adaptation to the new knowledge-based environmental needs and would ensure active involvement of an individual in social and economic life. The lifelong education policy does not determine strict common criteria, regulations, instructions and rules to be observed by the education

system of every member state. The European Commission has defined lifelong learning as a purposeful learning activity, both formal and informal, undertaken on an ongoing basis with the aim of improving knowledge, skills and competence. The UNESCO International Commission on Education for the Twenty-First Century names the four education pillars that must be acquired also in adult learning on the basis of general education. They are: learning to know; learning to do; learning to live together; learning to be. (UNESCO Report 1998: 106)

Such content of adult learning gives a chance for everyone to: 1) broaden knowledge, skills and attitudes as personal values; 2) adjust to the changing and complicated world more successfully. Learning to know forces adults to learn how to learn, i.e., learning methods. This is especially important in Latvia because thirty-year-old and older adults acquired executive function in the Soviet education system which is characterized by a model that one must learn what the teacher commands to learn.

Therefore, learning to know in adult education is both the tool and the aim. It can be reached only if the adult learning is accompanied by understanding of one's development, changes in nature and society as well as joy of discovery. It is related with active operation of thinking in the learning process. Active operation of thinking raises interest in contents of knowledge.

Acquiring of knowledge in the learning process is a continuous process in life of every individual. There is a definite correlation between learning and individual's work experience. Nowadays the diversity of work ensures a multiple experience of individual's activities that causes the need to learn. It is determined by the need to study contradictions between the existing experience and the requirements at a new job position. It means that experience causes the need to learn and, in its turn, learning enriches the experience of life activities.

The future of industrial societies depends on their ability to convert knowledge achievements into innovations that create new spheres and workplaces (UNESCO Report 1998: 106). They determine an individual's active involvement in the organized learning process both at workplaces and out of work in a freely chosen form as individuals are learning creativity.

Nowadays learning to do should be understood in a wider sense than its usual meaning, which is vocational training. These are skills which together with knowledge form competence.

Competence involves knowledge, understanding, skills and attitudes. Competence can be formed in various situations: formal, informal, conscious and unconscious. Competence is a necessary precondition for fruitful activities in various situations of life.

Perfection of competences in these areas has become the highest aim to be achieved in the lifelong education of the twenty-first century. The need for continuous perfection of competences is determined by today's changing environment and new requirements

of the labour market. Also the senior institutions of the European Union have said that lifelong development of human resources is a keystone of the development of Europe.

In the 20th century the standard of professionalism was knowledge, but nowadays it is competence. The criteria for measurement of competences are achievements – the results of activity. Berliner (Berliner 1995: 47) explains competences as a quality at a definite level of professional development. I. Maslo and I. Tiļļa (Maslo, Tiļļa 2005:5) point out that competence, being an ideal of education, is a chance to gain experience, reasonable individual combination of abilities and experience that is continually perfected in process sense.

There are various proposals in the science of education how to structure the quality of competence. One of proposals – the five stages of competence development created by H. Dreyfus and S. Dreyfus (Dreyfus, Dreyfus 1986: 38): novice, advanced beginner, competent, proficient, and expert. Nowadays, as the creative character of work is formed, there is a new view of a competent individual. Competence can be discovered and assessed only through activities and creative settlement of multiple situations based on one's experience. Competence refers to an individual. It is related to activities needed for achievement of individually significant aims. Competence should be analysed in correlation of subjective and impartial components. (Maslo 2006: 45)

Function of learning to do is not limited only to work. Its aim is “to participate in development both formally and informally”. (UNESCO Report 1998: 106)

Learning how to live together has a special place in the adult learning of the 21st century.

One of the main tasks is to teach how not to abuse each other. Nowadays people are influenced by huge competition, striving for achievements and fight for markets both at governmental and individual relationship level. Learning to live together should be started by formation of attitude towards oneself. In Latvia adults have low self-esteem. That is the impact of the Soviet lifestyle. It is difficult for an individual with low self-esteem to have an impartial view on others and something that is different. Each individual assesses others through himself. Therefore self-actualization and cognition of others is a correlation which has an essential and significant place in the content of adult learning process. This correlation is directly related to the learning of how to be.

The 21st century requires a variety of individualities. Innovations are moving into the continuously changing world and becoming one of the main factors of development. Therefore individual's creative thinking, imagination, abilities, creative multiple activities are becoming the precondition for development of activities in life.

In adult learning process collaboration is the number one sign of innovation between a teacher and participants of the learning process. It is characterized by the change of position both from the side of teachers and the participants of the process.

Change of position is directed towards collaboration in all age groups and education level groups. As Duranti and Goodwin (Duranti, Goodwin 1992: 16) point out,

collaboration is the aim of team work in children and adults' development, which is strengthened by mutual relationship, mutual mental understanding and a collective analysis of the process and work results. The basis of collaboration is the idea on cognition interest stimulated or developed by a teacher. Collaboration in the learning process has become a topical issue: it is surveyed, the experiments are carried out as well as theories are developed in many countries around the world. One of the most essential conclusions of the collaborative pedagogy – learning is not just a rational process, but is also related to assessment of information and the information is related to innovations. (Tiĳla 2005: 295)

The term “innovations” is not always unambiguously understood because at the global level it is acceptable to use various definitions for innovations to point out one or another particular characteristic of the innovation process.

It is clear that innovation involves all developments of society, ranging from education, science, research, and intellectual property protection, entrepreneurship support in science and technology parks and business incubators to business management, production, market research and product sales in the market.

It must be recognized that the history of civilization development is closely linked to innovations. Big scientific discoveries have significantly influenced the quality of life. Those hundreds and thousands of people who put into practice new ideas – innovators – have made inventions usable in life and their development and further perfection is a continuous process.

The creative mind of an individual is continuously searching for new solutions of how one can apply achievements of one sphere into another sphere by using the gained knowledge and acquired skills and how one can improve the existing products and reach a more efficient practical application of new products and competitiveness in the market.

Therefore we can come to the conclusion that the flow of knowledge is formed of two mutually linked but basically different processes – the creation process of knowledge or science and the application of knowledge into practice or innovations. Science involves in itself all the activities related to creation of knowledge, i.e., education at all levels and scientific research. Innovation, in its turn, involves activities related to application of knowledge and implementation of skills to create more valuable products and more productive services. (Investment and Development Agency of Latvia 2007: 9)

In the 21st century, knowledge is becoming the main driving force for progress in all spheres.

It is becoming important to gain new skills, to seek for new knowledge and its application continuously, as well as stimulate creativity together with developing values (Кларин 1998: 8). The basis of a knowledge society is lifelong learning, innovative ideas and innovations themselves. To strengthen the basis, special attention should be paid to the main principles of knowledge creation and management and the

improvement of the process as there is a correlation between the learning of individuals and development of society. The political and economical changes in society initiated the formation of paradigm of human education. (Beļickis 1997: 95) Every learning process should be directed towards the development of abilities. From the point of view of individuals and organizations it is mainly related to the competence development process, especially emphasizing the attitude of society and values, which essentially change the individual's experience. As one's experience develops, a person's values change.

| Traditional values | Innovative values |
|--|--|
| Morals | Self-realization skills |
| High salary | High Standard of living |
| Assessment of generally recognized success | Individual assessment of success |
| Traditional roles | Dismantling boundaries of roles |
| Belief in priority of production | Belief in human potential |
| Live to work | Work to live |
| Worship of heroes | Worship of ideas |
| Regularity of development | Awareness of consequences of irregular development |
| Extension of production | Extension of services |
| Technical novelties | Innovations of technologies |

Figure 1. Comparison of Values in Learning Process. (Garleja 2000:191)

The comparison of values shows an essential change in the aim of activities in life: to help every individual be aware that in the learning process a person is the development aim of society and the highest value.

As the democracy develops in society, the wellbeing of people becomes its main criterion. The process of globalisation fosters the change of values, involving strong competition and high-level of knowledge. The government must cope with such competition. Wellbeing cannot be ensured if there is a lack of economic resources, still wellbeing is not just a measure of economic nature. To achieve success both individuals and society in general should try to apply experience and perfect it.

Term “experience” is widely used in theory and pedagogical practice. “Despite the fact that experience has been a category of mutual understanding for ages, the contemporary learning process does not have a common theory of experience that is not limited to separate ideas and is a basis for learning practice”. (Giese 2010: 69) In his book “Wahrheit und Methode” of 1965 Gadamer points out that the term “experience” is ambiguous: “I consider that concept of experience, as paradoxically as it sounds, is one of the most ambiguous concepts what we have”. (Gadamer 1965: 329) Almost forty years later Meyer-Drawe states: “Experience is widely met and applied ambiguously now”. (Meyer-Drawe 2003: 505) Bollnow points out that “all the science of our times should be perceived as science of experience, which means that science is fully based on the concept of experience”. (Bollnow, 1974: 19) It means that not only in practice but also in science the surveys on the essence of experience and its formation process are extremely important.

In the process of adult learning it is important to understand the dialectics of experience as a structural correlation with oneself or one’s own experience. “The pedagogic quality of this dialectic process depends on the level the individual gets involved in it” (Giese 2010: 69). It means that experience is both the basis of learning or a significant means of pedagogy and its result. “Learning is an integral part of experience. It is an immanent consequence of experience (compliance with inside system, determination).”

“Experience that has no consequences from which to learn is not an experience,” (Buck 1989: 15). This shows the significant role of experience both in the process of learning and its result. Experience and its broadening are particularly essential in the process of adult learning.

Buck integrates the category of experience into cognition process. He considers that on the one hand, experience means “something what you acquire right now, on the other hand, something on the grounds of which actual familiarization in general is the act of understanding”. (Buck 1989: 62) Thus, the unknown is acquired only if it is present in the content of experience which allows existence of some previous knowledge. Otherwise, the unknown would be difficult to grasp and understand. Such an approach in theory means that experience plays a significant role in the pedagogical organization of the learning process and individual’s learning process.

Learning begins with the actualization of one’s experience. What knowledge and what skills does one have to use for processing of new information? Actualization of one’s experience – knowledge, skills, attitude (competence) – is a difficult task for adults

because not always they have the necessary skills for such self-analysis. Therefore it is important to have the advice and support of a teacher in formation of an individual aim. The aim is a subjective component of an activity, which mobilizes individual's physical and mental strength to achieve it. A clear aim in the learning process fosters free conscious activities. Experience is a wide source of any kind of knowledge (empiricism).

In the analysis of the structure of one's experience the inside structure of activities by psychologist A. Leontjev should be taken into account. He describes person's needs as an inside condition of activities or a motive that drives and regulates activities. (Леонтьев 2007: 134) The needs which motivate an individual to perform activities are determined by experience. According to A. Leontjev, the relations between a motive and an aim have an individual sense. It motivates an individual to act purposefully and complete the sense, i.e., to achieve the aim and satisfy the motive. The sense of activities changes simultaneously with the change of motives.

Acquirement of experience in the process of learning is impossible without reflection.

The experience gained in the process of learning encourages communication. It is essential for adults to have open communication in a dialogic process in the group where learners are involved in creative thinking and communication on the basis of their own experience. According to I. Žogla (Žogla 2001: 170), the task of a teacher is to create a stimulating environment to develop attitude and to provide a chance to test one's knowledge and other features, to encourage discussion and develop experience as well as to justify one's opinion.

In such kind of learning a teacher and adults share responsibility for the process and the result. It is determined by meaningful learning, free choice, acquired self-control and self-esteem.

According to constructionism theories in pedagogy, it is important for a student to be aware of the learning cycle. It can be structured in the following way: initial experience → new need – aim → learning activities → reflection – assessment → subordinate experience.

By adapting the spiral of the learning cycle created by Richard Barrett (2008) any person involved in learning can understand the cycle.

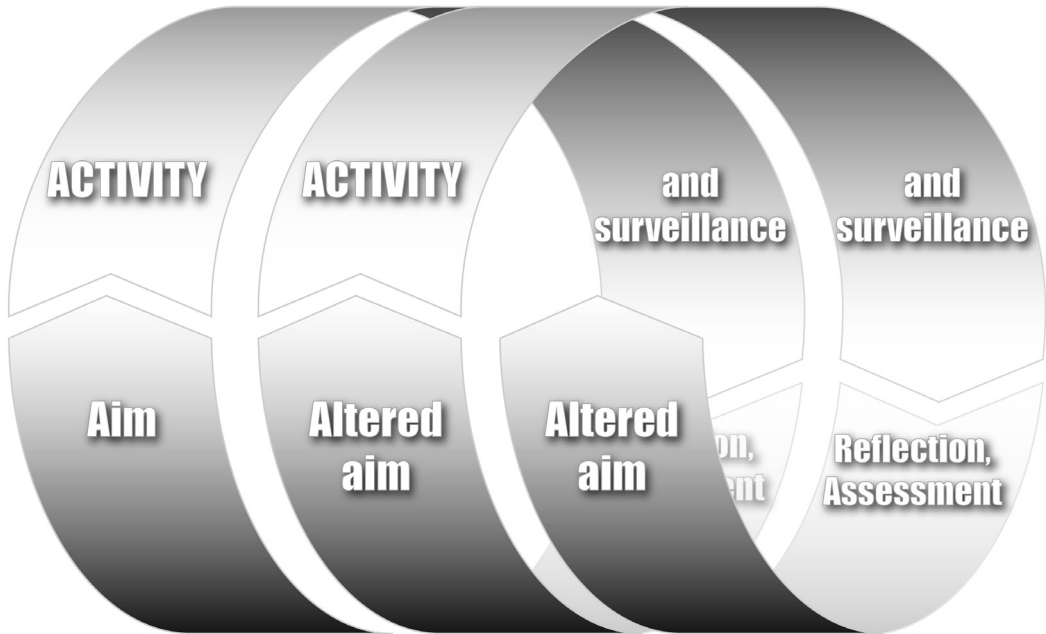


Figure 2. Spiral of the Learning Cycle

First of all, the cycle is made of initial experience. All life long, every person develops, saves and reflects experience on the basis of one's own organized knowledge that develops on the grounds of previous experience and, at the same time, structures into new experience. New problems of activities cause new needs and an individual puts forward the aim to learn and achieves the aim by learning: chooses learning methods and uses the content for acquiring. In this part of the cycle the support of a teacher helps an individual to acquire skills of reflection and to assess the newly acquired subordinate experience.

By analyzing the results of activities and the gained experience, they involve in reflection, analyze mistakes, learn from them and acquire new knowledge. The role of reflection in the cycle of learning is essential because on this base an individual alters his aims of learning.

Independent and responsible learning, collaboration and communication skills characterize the quality of a contemporary individual and it is becoming the highest value of our society and lifelong education. If an individual is aware that lifelong learning is a value in our information society, then he/she understands that learning is a means of self-development that fosters the formation of new experience and ensures more successful self-realization in the activities. When a person enriches one's experience in collaboration, the experience of society is also enriched.

To find out why people are willing to change their occupation, start training and entrepreneurship, the people who had applied for the Mortgage and Land Bank's "Start Program" were surveyed. The survey also showed how one's experience had improved and the dynamics of altering values. 93 people aged between 18 and 75 who attended the courses of the "Start Program" participated in the survey.

The Mortgage and Land Bank's "Start Program" was set up on March 31, 2009 when the Cabinet of Ministers adopted Regulations No. 293 "On the Action Program "Human Resources and Employment" Supplementary activity 1.3.1.2 "Support for the Set-up of Entrepreneurship and Self-employment". The regulations envisage the procedure how the funds of the European Social Fund (ESF), the government and the Mortgage and Land Bank in the amount of LVL 23 million (LVL 14 million are allocated by the ESF and the government, LVL 9 million by the Mortgage and Land Bank) shall be used for the support of start-up entrepreneurs. Within the framework of the program, the Mortgage and Land Bank shall allocate loans from the specially formed Loan Fund to the start-up entrepreneurs in the amount of LVL 16,5 million till July, 2013. In addition, the funds allocated for **training** and **consultations** in the framework of the program amount to LVL 4 million.

The aim of the program is to develop entrepreneurial activities in the country by developing **knowledge and skills** of the start-up entrepreneurs, as well as by providing the financial backing necessary for the start-up of entrepreneurship.

The program offers a complex support to the start-up entrepreneurs and newly founded businesses, i.e., **consultations**, **training**, loans and grants for start-up of one's business.

Those start-up entrepreneurs who have insufficient theoretical and practical knowledge for starting business and preparation of a business plan are offered training on the basis of a modular method in the following modules: business basics; management basics; legal regulations of entrepreneurship; financial management of a business; bookkeeping and taxes; introduction to marketing (Mortgage and Land Bank of Latvia 2011a).

Most of the start-up entrepreneurs participating in the "Start Program" comply with what is written in the call by the Mortgage and Land Bank: "If you are energetic and determined. You do not grumble about complicated circumstances. You know that your future lies in your hands. You are not afraid of great plans. You are not afraid to take responsibility. Because you have an aim and you know how to achieve it. We support you because we believe you". (Mortgage and Land Bank of Latvia, 2011b) The Bank addresses and supports the people who have an aim, new needs and who strive for self-development.

The survey took place in January and February, 2011. 55% of respondents were women and 45% men, all of them Latvian. 43% of them were from Riga, 24% from Vidzeme region and the rest from other regions. Age groups: 23% aged 26–30, 20% aged 31–35, 19% aged 36–40 and 14% aged 41–45. In total, 76% of those aiming to start entrepreneurship were aged 26–45. Before starting entrepreneurship 55% had

been employees, 21% had lost their jobs, but others had been self-employed or worked in another company of their own. One-third of them had worked in the public sector, the others – in private sector.

Almost half of respondents reveal that they have chosen entrepreneurship because they want to work on their own, one-fifth respond: “I have a good idea, I want to prove my abilities to the world, I want my dream to come true, I want to work together with my daughter/ wife” and similar statements. One-fifth also says that they want to improve their material position, and 15% claim that they could not find another job. A conclusion can be made that an individual’s attitude towards oneself changes: everybody feels oneself as a value and wishes to satisfy one’s independence in real activities.

The “Start Program” has given faith in one’s desires, abilities and a chance to change occupation and prove one’s abilities in a new job. The survey shows that the number of people in production of material values has increased considerably. The number of people engaged in production has increased from 9% to 19%. The field of education has experienced dramatic changes. 11% of those 17% previously employed in the field of education have started up entrepreneurship in a non-related field. These changes show a positive people’s initiative and willingness to make changes during the period of crisis. The survey reveals the entrepreneurs’ change of attitude towards wellbeing. In a democratic society wellbeing is the essence of human value and has become its main criterion. The alteration of values is fostered by the process of globalization that involves a high level of individual’s competence and knowledge. It gives a chance for every individual to change occupation freely and develop one’s experience. An individual becomes the highest value of society, his self-esteem and chances of self-expression grow. The survey on start-up entrepreneurs proves this. 97% of participants state that their well-being has increased since they started entrepreneurship. It is interesting that the main measure of wellbeing was not salary. Those whose net income had been between LVL 351 and LVL 1000 experienced a reduction. Those 44% earning less than LVL 350 experience an increase in income. However, only 6% of the participants stated that they would like to return to being an employee. It gives evidence that people have found a chance to gain satisfaction in business and work has become a value and reference-point for further development. New aims and achievement of these aims have fostered formation of new experience. It has been encouraged by mentors as a mentor is an experienced entrepreneur who hands over his experience skilfully. 49% of the participants think that mentoring is an essential factor in the start-up and improvement of new activities. The process of learning itself, if it is organized in an innovative manner, where every person can express oneself and work actively in the “Start Program” is essential for acquirement of new job. 82% of the participants highly value the process of learning before starting entrepreneurship. Moreover, 94% of the respondents would suggest other start-up entrepreneurs participate in this program.

Conclusions

In order to ensure entrepreneurship, it is essential to support lifelong learning and self-development. Participation in programs that provide entrepreneurs with essential skills is vital to their success. Most start-ups are founded by people aged 26–45.

With the view that start-up entrepreneurs can improve their values and experiences in the process of learning, four conditions shall be pointed out:

- 1) The process of gaining experience is a self-governed performance of an individual. Direct interference is not possible in this process. Gaining experience is an individual's active confrontation with the world and involves independent activities and responsibility for acquiring knowledge.
- 2) The process of gaining experience should be interpreted as autonomous activity. Belief that entrepreneurs might include spoon-fed solutions in their experience is wrong as in this way they would be deprived of the process of self-education and the emotional experience of joy about learning, as well as awareness of achievements.
- 3) The changing relations of an individual and the world, link between the activities and mind are becoming the essence of learning. The purpose of learning has a special role in the process of learning. It means that aims and motives of learning are intentional.
- 4) The content of one's new experience has to be related precisely to one's previous experience developed during conscious self-study process.

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ROLE OF MONEY AND WELFARE IN SOCIAL DEVELOPMENT

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Abstract

The goal of the article is to analyse what regulates the speed of social progress: money or welfare. Quantitative methods representing various opinions will be used. The practical purpose of the study is to clarify the concept and meaning of welfare and money, which is necessary to understand the rationale for social progress. At the conclusion of the study, as a result of various discussions, clarification will be provided regarding the correlation of welfare and money and their impact on social progress. The originality of the study is determined by contrasting welfare and money as postulates for the achievement of happiness. Article profile – the conceptual article.

Keywords: *Economics, welfare, money, happiness, society.*

Introduction

To determine the correlation between money and welfare, and its meaning in people's lives and progress, one must primarily focus on happiness – its origins, form, nuclei, point, meaning and essence. This is not rhetorical philosophy, but a reflection of what we are looking for in both factors – money and welfare. The economic perspective arises from the philosophical concept. We are governed by our desires and the speed of our progress is determined by our single-mindedness. Is welfare possible living frugally? To what extent is it determined by our wishes and guaranteed by our means?

The true range of people's interests incorporates an interest in physical survival, a stable place within society, an important social and cultural identity, and socially significant work. The desire to preserve these interests leads to the creation of conditions in which they become physically and economically attainable for everybody. (Laszlo 2009: 31)

The topicality of the problem studied in the thesis is determined by the rapid pace yet equivocal direction of social development, which concurrently lacks an understanding of the past as a guide to the future. If people want to become happier, it's necessary to

understand the principal keys to happiness and to know how to use them. Social competition is the reason why the feeling of happiness cannot grow alongside economic growth. However, this question cannot be answered unequivocally, and therefore it is necessary to determine the aspects which make people happier, which confer welfare and encourage its attainment and spread.

The goal of the article is to analyse what regulates the speed of social progress: money or a desire for welfare. The author will perform the following tasks:

- define the concept of welfare which is necessary in order to be aware of the sources of happiness;
- study the concept of happiness from its historical origins through to the present day via varying interpretations and historical understanding.

Subsequently, the economics of happiness will be considered from an economic viewpoint, switching from welfare to money; and finally, conclusions will be offered for the contemporary world as to what is the true goal in people's lives, and what is the driving force setting the direction for social development.

Viewed from an economic perspective, nobody can know a person better than the person himself. In essence, a person can be happy, thus not making another person indirectly unhappier. Why does this not induce a resultant enhancement in each person's personal happiness?

Methods used: quantitative methods representing various opinions. Through the study, the author hopes to clarify what drives social progress – the desire for money or welfare. The practical purpose of the study is to clarify the concept of welfare, in order to understand why people pursue every increasing financial means. The originality of the study is determined by an analysis of the relationship between welfare and money. Article profile – the conceptual article.

Necessity for Understanding Welfare Factors

In the past 50 years when people's incomes have increased several times, we have not become proportionally happier. What is the problem today? Happiness is not always commensurate with income. Studies of the path to happiness combine absolutely opposed sciences such as psychology, neuron science, economics, sociology and philosophy.

How can we – members of society, regulate human happiness? One way is theoretical reasoning. This incorporates the postulation that selfish action is acceptable as normal single-minded activity leading to an abundant sense of happiness. Since human needs are positioned as a necessity, national income is defined as national happiness. This is a pronounced position adopted within western civilizations.

The second option is to take the facts that make people happy. These can be split into three: social status and security: at work, within the family, in the neighbourhood and

state, and the trust of other people. The author of the present article defines a feeling of happiness as feeling good – enjoying life and wanting these uplifting current to last forever while perceives unhappiness to be an uncomfortable feeling – the desire for things to happen differently.

The sense of welfare depends on our relations with other people. In the opinion of political theoretician Thomas Hobbes, a line should be drawn between two different social states: natural and civil. The natural state arises when everything introduced by the state is removed from human relations. People will then act according to the natural law of self-preservation. All are entitled to everything they can get. Here rights coincide with force; therefore *everybody is at war with everybody else*. This war contradicts the desire for self-preservation. Therefore, peace must be found – everybody must renounce their rights to everything and thus some rights must be passed to others. Everybody enters into a mutual unwritten contract, thus ending the natural state and founding the civil state. A state with a unified will is required for peace and common purposes. Everybody must subordinate their individual will to a person or group of persons whose will must be considered to be the will of all. Thus the state is created (Hobbes).

The sense of happiness does not depend only on the situation and relations, but also on attitudes to events. People are the happiest if they are compassionate and grateful for what they have. When life is hard, these qualities become increasingly important.

Sustainable happiness is considered here, rather than moments in which we feel happy or unhappy.

Feelings are greatly influenced by thinking, but thinking is governed by the brain. The impact of happiness on health is undeniable. Happy people have a stronger immune system and lower level of stress. A good experience has a lasting effect on health. We tend to multiply positive feelings and avoid negative ones. Not all actions that provide positive feeling are positive: smoking, alcohol, but these are considered to be human. In his work, *the Nichomachean Ethics*, the Greek philosopher Aristotle states that pleasure is a virtue to be found between two extremes: dissoluteness and indifference. There are natural pleasures – eating, drinking, and sex, and unnatural ones – excessive use of strong alcohol, cigarettes, and drugs. All pleasures must be enjoyed in moderation and with restraint. This will enable a person to attain the beautiful and good in life. Pleasure affords completeness to any activity, including the life that we all desire; therefore, it is clear that we strive for pleasure.

According to Woody Allen, money is valued higher than power only from a financial perspective. Does money make people happy? Is it important to be superior, wealthier, and more influential than others? Why does the existence of equality prompt people to feel equal on the average? The answer is provided by the belief of the 19th century economists that additional happiness is enhanced by gradually obtained additional

income which is unequally commensurate with the achievements, income and accomplishments of other members of society.

Relations between humans and nature have become increasingly complicated and fraught. Symptoms of illness are becoming increasingly visible in society (Lazlo 2009: 14).

Concurrent to progress, growth and the enhancement of income as well as happiness, society is also on its way to another manifestation of the past 50 years – the shift towards depression, alcoholism and crime. As income increase, a growing number of people suffer from depression. Alcoholism is comparable to workaholism, but its roots are considered to be a genetic trait triggered by specific circumstances. Drug addiction is not considered in isolation, because people suffered from depression long before the boom of the narcotics industry.

In each society, wealthy people are happier than the poor, but wealthier societies are not happier than poorer ones (Layard 2006: 44).

Welfare is the most visible connotation of material benefits, which exists together with certain items denoting satisfaction, which are conducive to physical prosperity – the least discussed element of human integrity. Philosophers, who have studied the factor of happiness, have placed the element of welfare as a postulate for achieving happiness.

Material welfare is complemented by psychological welfare and it is more difficult to determine its degree. One may define the circumstances which influence welfare or prevent awareness of what we should be protected from – mental illness, family crises, and a socially undesirable environment or warfare. There are positive aspects which have a favourable impact on our psyche and welfare. Ethics determine our values and set our priorities in order.

We can act to improve prosperity, but it cannot do anything for us. This situation is immutable, and this is why the question of justice does not arise. (Huxley 1932: 291)

Definition of Welfare

One way of interpreting welfare is from the daily human perspective, while another involves considering it together with society at the macro level.

Welfare is the highest possible approach to economic resources; the highest level of welfare, incorporating the happiness of inhabitants; guaranteed minimum income to avoid living in poverty, and finally, taking into account the ability to ensure a good life for inhabitants. (Greve 2008: 58)

Welfare can be linked to collective or individual material status, but mainly it will be related to various interpretations of social justice. It can incorporate altruism, engagement of personal interests and demonstration of authority. It can be interpreted as a science, i.e. how much food and water a person needs to consume in a day to survive.

Historically, it has been difficult to unravel the concept of welfare. This also applies to economics. Economist Arthur Cecil Pigou stated that the state is responsible for providing sufficiently dogmatic definitions of two propositions – elements of welfare and their possible relations, and, that welfare can be achieved according to the category – greater and lesser. (Pigou 2006: 10)

Is money the measure of welfare? In classical economics, welfare, dependence on individual worth, etc., restrict the role of the state; particularly, in relation to correction of market errors.

There are many pragmatic objections to the principles of happiness. Happiness cannot be defined and discussions of it are just an ocean of rhetoric. Happiness cannot be measured, because we cannot ascertain an absolute level and degree. It is not possible to reach lasting happiness, hence the pursuit of a brief deception to make things easier for ourselves. The final objection – we cannot deliver happiness to ourselves. It is important to consider the testimonies for and against each of these. (Veenhoven 2010)

Regardless of the precise functions of the concept of welfare in various disciplines; it is accepted practice to play them in roles, determining what should be achieved in life as well as what should be encouraged in the lives of others.

Historical Origin of the Concept of Happiness

The question about finding happiness has been topical since the birth of civilization. Aristotle was one of the first who considered the question in-depth and asked “What is happiness”. He was a rationalist in the broadest sense of the term, just as almost all ancient philosophy as a whole was rational. (Kūle & Kūlis 1998: 178)

He sought the answer to the quest for happiness by defining two questions – what is meant by the word ‘happiness’ or *eudaimonia*¹ and where happiness can be found. He sought to answer the first question through the second.

Happiness is the highest value, because it is the foundation and the beginning, and for its sake we do everything else, but we consider the beginning and cause of everything good to be the highest value and something divine. (Aristotelis 1985: 44)

This is a radical contention, stating that all actions are aimed at attaining happiness. This was also not always compatible with Aristotle’s subsequent statements. There are six characteristics of *eudaimonia*²: it is relevant in this life; has properties of stability; cannot be easily lost; it is attainable; and it is complete and perfect. It is not intended for anything else and requires the whole of life. (Sullivan 3)

¹ *Eudaimonia* – pursuit of happiness

² Henceforth in this text, I choose to use the traditional translation of *happiness*, referring where necessary to the definition of *Aristotle’s happiness*

People can greatly differ and be strange regarding what makes them happy. Regardless of what is a pre-condition for happiness; it must be based on logic. To create an impression of happiness, two concepts must be separated.

First, we can be happy doing different things, but cannot be happy being a weapon in the attainment of happiness by others. Happiness is to be found within itself, not elsewhere. Second, happiness must be self-sufficient, must confer a benefit that gives meaning to life. Life cannot be happy, if existential needs are not satisfied. Aristotle includes the importance of independence and stability in his postulation of happiness.

These definitions incorporate the concept of happiness and, therefore, one must ask what allows happiness to exist? What kind of life is the most useful? Aristotle stresses that self-sufficiency is of the highest benefits which inherently also entails a happy end to life.

Self-awareness as a character quality is the highest degree of awareness of one's value, but in practice the correct attitude of a self-aware person is manifested as restraint and moderation, because he judges himself according to propriety, whereas extremities are manifested excessively in both one direction and the other. (Aristotelis 1985: 88)

A happy person is self-sufficient – knowledgeable, cautious and confident in his understanding of the things that make life worth living. This confidence is a part of a happy person's contentment.

It may seem that a happy person is convinced that life will always include sufficient desirable experience. Happiness is sufficient if it includes the end. If it seems to have been achieved; one cannot believe that the person concerned will ever be self-reliant in managing to embrace it. The definition of self-sufficiency makes happiness unattainable and it would be foolish to spend too much time seeking it.

However, the intuitive sense is that a happy person is nevertheless self-sufficient. And if there is this intuitive picture of self-sufficiency, it is likely that the criteria set out by Aristotle can respond to it. (Richardson 2004)

A happy person can cope with life's ups and downs, focusing on the goal set by the criteria for happiness. If life is worth living, it must have an abundance of pleasurable things. These are joy and pleasure. Primitive pleasures must be combined with intellectual pleasures, because then goal-orientated meaning can be generated. Others choose public life as their pleasure, including politicians, but there is also a division between people who bask in the limelight of politics just to fulfil their existence and those who occupy their position in the pursuit of money and power. The third division is the world of scientific contemplation, which is illustrated by the example of Athenian philosopher, Anaxagoras, who when asked why one should choose to be born rather than not being born, replied it is worth being born just to contemplate the sky and the system of the universe with joy.

Aristotle gave rise to the notion that learning and knowledge constitute pleasure. Knowledge is beautiful in itself, including without practical benefits, and without a

connection to a certain place and time. All the rest is nonsense, empty talk and boredom, which is not worthy of life. (Kūle, Vēbers 1990: 104)

Aristotle formed a short list with three positions how people obtain fulfilment – life with pleasure, life with politics and life with studies. And money is just a means of making purchases. By considering people's purchases, it's possible to form an opinion about where they believe happiness can be found. For some happiness is virtue, for others it is rationality, and wisdom for others, while there are others for whom it all the aforementioned or some part of it together with pleasure, or at least not without pleasure, while there are others who also include external welfare. (Aristotelis 1985: 38)

Aristotle understands happiness as an activity of the soul, through which, virtue is also born. Pleasure and well-being are a condition of the soul which encourages active attainment of the beautiful and good in life. Happiness is also the need for external benefits, because it is impossible to do good works living in poverty. This explains why many people consider welfare and happiness to be the same thing, while others perceive virtue and happiness to be the same.

The main question is whether happiness can be attained through practice or whether it is akin to divine will? We define happiness as an activity of the soul which is manifested through a certain virtue. The other benefits are required as pre-conditions for happiness or as auxiliary means to it, or as useful tools. (Aristotle 1985: 40)

Therefore, established through a deliberate choice, virtue is an enduring character quality which is located in the centre in relation to us. This centre is defined by the mind, moreover in such a way that can be understood through practical action by an intelligent person. (Aristotelis 1985: 54)

It is misleading to think that the only pleasure is that which arises from feelings. They have a role in the content of a happy life when they are enjoyed in accordance with virtue and moderation.

Aristotle considered the life of a scientist to be the most valuable form of life, which conforms to the nature of man to the greatest extent; in turn, he considered the greatest value to be knowledge in itself. (Kūle, Vēbers 1990: 110)

Aristotle was too realistic to notice that transformations, with their related coincidences, are free gifts from a generous fate which plays an irreplaceable role in human happiness. (Maritain 1964: 34)

In his postulation, Aristotle mentions that the fulfilment of wishes, unlike pleasure and feelings of joy, were mixed with pain – this is now philosophy which does not mix with pain. During the Hellenic period; according to postulation of the philosopher Epicurus, the mind does not play a major role in the life of a happy person – its role is merely to sense and remember the feelings of pleasure.

We can also reflect that while some wishes are natural, others are unjustified. Requirements are valid if we wish to be happy; some in order to relieve the body of

unease, shyness, restlessness or fear, and some if we want to be balanced, equable, consistent and live uniformly. (Epicurus 2000)

In the ancient world, the biggest opponents of Epicureans were the Stoics, whose ethical ideal is the clever person who has attained virtue, who cannot be broken by external circumstances and who willingly goes where fate leads him, while the only evil is vice. (Dictionary of Foreign Words 1999) Stoicism³, firstly, focuses on an individual's spiritual welfare. By learning how to control passions and emotions, one can overcome the chaos of the surrounding world and find peace. Stoicism believes that passion distorts truth and that striving for truth is a virtue.

If somebody is unhappy, this is because he has forgotten the true course of nature's cycle, because sadness and evil are the result of a lack of education or spiritual darkness. In order to resolve sadness and evil, one must reconsider one's behaviour and pressures, because every person can understand where they have taken the path of deception and departed from nature's path of universal reason.

The Stoics' view of happiness incorporates a lasting mood, which is devoid of disruptive passions, and can accept pleasure as a certain, convincing and reliable emotion.

For Epicureans, the problem of defining happiness was less pretentious and complicated. Happiness was the result of pleasure for Epicurus. We can describe pleasure as the alpha and omega of a happy life (Epicurus 2000).

Nevertheless, Epicurus' idea of pleasure may differ from how we understand it today. Pleasure according to Epicurus is the absence of physical pain⁴ and adversity in the soul. (Epicurus 2000)

Similar to the Stoics, Aristotle positioned happiness alongside virtue and its exercise, just as he did not place fame and wealth alongside a happy person's feeling of happiness.

A clever person is rich; all things belong to him, because he knows how to do things well, and are genuinely attractive, because the face of the mind is more beautiful than the beauty of the body, as well as being free, even if he finds himself in jail, because he serves slave of fasting. The Stoics agreed that it is much harder to find a clever person than to find the phoenix.

Lucius Annaeus Seneca was the first to posit will as different and independent ability of the soul alongside learning. Man could attain freedom through knowledge and awareness of death, and wisdom is manifested as love of destiny. Seneca's definition of happiness reflects contemporary reality.

³ Over the course of the epochs, the meaning of *Stoic* has changed significantly. Nowadays, it is often positioned as 'devoid of emotion' or 'impassiveness', but this is not historically accurate, because the Stoics did not attempt to eradicate emotions, but merely protected themselves from emotional upheaval which could disrupt their critical faculties, and, by purifying inner peace through stringent logic, pursued the course of reason.

⁴ Absence (English) can also be translated as a delay, non-arrival, non-existence or lack.

Not he is happy who the mob believes to be such and whose hands are awash with money; but he whose entire goodness is in his soul. (Seneca 55 BC)

In reality, happiness is just a mask that deceives, because judged from the side, people can seem happy when they are not happy at all. If a person wants to discover what he's really like, he must renounce material values, assets and status and then his true identity will be revealed, because what we really believe is what others see in us.

What is a happy life? It is an orderly mind and lasting peace. Anybody can attain this if you possess greatness of mind. It can be yours, if you are possessed of imperturbability, constancy and rigour, which will determinedly adhere to a good judgment of that just achieved. (Seneca 1917: 449)

Happiness as a Gift Given by God

How easy is it to attain happiness in life? The question arises as to whether happiness can be taught or acquired through practice, or attained in another way, or whether it occurs in accordance with divine will or is too a lucky instance. (Aristotelis 1985: 39)

Aristotle reflects that each of the elements contains some of the means of attaining happiness. Some may subsequently argue that happiness stems from the genes, while other will write analyses of how to achieve a regime, adherence to which would lead to the attainment of happiness. Others will believe that there must be a magic, secret science which will bring happiness. The rest will think that the aspect comes into force in a happy environment, and therefore one's surrounding environment is important. For centuries the dominant explanation has been that the highest benefit is conferred as a gift from God which can be achieved through heavenly benevolence, mercy and kindness.

The main interpreter of this viewpoint was Aurelius Augustinus, i.e., Saint Augustine. He started from the premise that everybody wants to be happy and it is the task of philosophy to define the highest good and how to attain it.

Like Aristotle, Augustine defines happiness as the highest good. This is the good which ensures and sets the standard for all our actions: it is sought for our own benefit, not as a means to an end and if we once attain it, we don't feel any lack that is required for happiness. (Augustine 2005: 8) Then Augustine tries to take a step ahead of Aristotle and all his pagan predecessors. He makes the objection that happiness is really only possible after death as a vision or view of God.

Only love of God is the true goal; all love towards other people, including love of oneself, is only a respectful attitude towards a timely end. (Nuyens 2009: 26)

He persuades that every person who wants to be happy must choose to be eternal. How can we say that a happy life ends at the moment of death? From another perspective, if there is something in this life in which he wishes to undertake his role; how can he be truly happy? But if eternal life is required for true happiness; this is not

enough. Pagan philosophers, who raised the objection requiring proof that the soul is immortal, also acknowledged the possibility of a regrettable cycle of reincarnation.

Only the oath of Christianity makes the promise of eternal happiness for the whole person, soul and body concurrently. (Augustine 1963: 13, 8-9, 11, 12)

Total happiness cannot be found during life on the Earth. Several levels of social life exist – family life, life in the city, and life in the global community. Augustine is more realistic than many of the Stoic writers who identified happiness – Augustine uses *happiness* as something approaching how we understand this concept and confirms that virtue cannot guarantee happiness in this sense. (Kilcullen 1996) When virtues are genuine, they provide no reason to pretend in order to save one's authority from misfortune, but exist to raise the objection that human life, which is currently awash with so many mystical ills, can be redeemed, and rendered both happy and safe through divine belief. (Augustine 2005: 9)

On the Earth, we can be sure, according to the manner how we enjoy peace, so little, how it is, as provided by a good life; but life competes with the bliss we enjoy at the end of our lives; in truth it is a great secret. (Augustine 2005: 10)

The highest good from the Kingdom of God is eternal peace; not our mortal passage from birth to death, but in our indestructible freedom from all daily problems and adversities. This is the happiest life and compared to our life on the Earth, it is completely and absolutely sorry. (Augustine 2005: 19)

Insecurity and fear of loss are not compatible with happiness, and there is insufficient wisdom not to fear that which we require for happiness. If a happy life is attainable, Augustine tells us that these external benefits cannot be posited as its foundations, since these drops in success are akin to mishaps. (Sullivan 7)

Bliss must be complete only when we attain safe access to what we adopt as a seed of joy and contentment. If this seed is fleeting and tends to disappear, the condition for our fulfilment and complete bliss cannot be met. (Wetzel 1992: 57)

There are individual worldly benefits, which do not have the slightest connection to happiness, because man is also capable of being happy without them; nothing makes it necessary for the will to desire these benefits. However, there are also other things which have the necessary connection to happiness; they are the things that connect man to God in one whole, true and shared happiness, which is created. (Aquinas 1993)

Thomas Aquinas tried to balance belief in freedom with the postulate that all the people should do is to pursue happiness. It is clear that goodness is not always connected with happiness. Here one can sense shortcomings in the fundamental precondition, which Thomas Aquinas shares with Aristotle and Augustine, i.e., that each person cannot be individually sure of happiness, being separated from our usual daily environment. This is a sweet belief which afflicts us on a daily basis.

Happiness is to be desired in itself and it can never be a means to something else. However, we genuinely seek honour, pleasure, reason and every virtue for ourselves, but at the same time we also choose them for the sake of happiness, in deciding that by their very definition they will also render us happy. On the other hand, nobody seeks happiness in connection with these aspects, nor overall, for any other reason than for own sakes. Happiness, therefore, is something complete and self-sufficient. (Adler 2001)

In contrast, Augustine and Thomas Aquinas believed that it was necessary to feel genuine love for our neighbours, because they are akin to one team from the vision sent by God as a whole. Interest in the welfare of others is posited as the final task for our fulfilment.

At the end of the 19th century, the discord between Aquinas and Skotus was replayed in a different version. This was a novelty as the difference between the differing opinions of philosophers Bentham and Kant. In his theory of ethics, Jeremy Bentham reduced the motives for action to pleasure and suffering, whilst deeming utility of action to be a moral criterion. His rationale was that morality can be mathematically calculated in terms of the utility of pleasure and suffering derived as a result of some action. (Gunn 1989: 199) Bentham augmented his metaphysical and mechanistic understanding of morality with his idea about the satisfaction of private interests⁵ as the idea of the *greatest happiness for the largest number of people*⁶. Bentham believed in individual revelation in the understanding of religion, and like Aquinas, positioned happiness at the centre of the concept of morality and virtue. In an analogy of the way that medicines relieve pain and make it possible to enjoy life, Bentham believed institutions and the legislative system must be structured to relieve pain and make it possible to enjoy life. According to Bentham, the best society is the kind in which the population is happy. The most effective public government nurtures a sense of happiness among the population. When this is reduced to personal behaviour, the most laudable action is the one which enhances the feeling of happiness. This is also the basis for the Greatest Happiness. This is a fundamentally egalitarian principle, because each person's happiness is tallied equally. This is also fundamentally humane, because it points to each person's feelings being important.

Divisions in Philosophical Thought

The question remains: "At what extent happiness is attainable for us?" Amidst the discussions between philosophers, various degrees of optimism can be discerned. Aristotle and his followers accented virtue, without strictly attempting to pigeonhole morality as the path to happiness. They perceived virtue to constitute supreme goodness. In contrast, Augustine and Aquinas adopted happiness as a supplement to

⁵ The so-called principle of egoism

⁶ The so-called principle of altruism

moral virtue, as moderation and intellectual excellence, as knowledge, and theological virtues, or hope and love. God decides whether people will or will not receive these gifts. Akin to a reward for virtue, happiness can only be fully enjoyed in the next life. Linked to a virtuous life, incomplete happiness is commensurate with a complete lack of worldly benefits. Utilitarians were more optimistic about the possibility of attaining complete happiness in this worldly life, which for many was the only life. This contrast confers the difference between differing concepts of happiness.

Bentham and Aristotle agreed with the idea that happiness is the main ethical concept, unlike Scotus, who believed that the concept of happiness is merely the residue from the equitable concept of justice, and Kant who thought that it belonged to one level below the concept of duty. However, as a postscript to these specific differences concerning the nature of happiness, Aristotle and Bentham do not agree with the extension of happiness as the ultimate end of action. For Aristotle, the ultimate end of individual virtue was a person's own welfare; while for Bentham it was 'the greatest possible good for as many people as possible. Kant and Scotus do not confer such a dominant role on the positioning of happiness. In regard to the problem of the common good versus the individual, their influence has a bearing on the problems considered by Bentham in relation to the position adopted by Aristotle. Interest in others that exceeds the interest in oneself was defined by Scotus as the principle of individual justice. For Kant, the nature of duty is defined according to the process that brings joy to others to the same degree that it provides support for oneself.

Due to the dominant influence of Kant, many philosophers in the 19th and 20th centuries lost interest in happiness studies. Utilitarians, continued to honour the concept of happiness, but their interest also slowly began to shift in other directions. The philosophers around them had just become interested in the relationship between utilitarianism and other moral institutions, while economists sought studies to ascertain which methods are available to control utility or effectiveness.

From Philosophy to Economics, and from Welfare to Money

Economics is – or ought to be – about the happiness of individuals; particularly because economic growth, unemployment and inflation, as well as institutional factors such as government, affect individual welfare. (Frey, Stutzer 2002: 408)

The tasks of property and government policy are aimed at increasing people's happiness (Tian & Yang 2006: 1). In economics, happiness is defined as utility and in psychology it is known as subjective welfare. Economists choose to use a highly simplified assumption that income can be used as a mandate for utility.

Economic matters are only significant in so far as they make people happy. (Perez 2006: 1)

The first utilitarians thought of happiness as being something only possible subject to a certain amount, control and measure, because the concept *felicific calculus*⁷ does not have any content as such. Since utility is an economic end, attempts at success at risk depend on the total amount of utility.

At the end of the 19th century, the majority of English economists believed that economics concerns happiness. (Layard 2006: 133)

At that time, the subject could only be resolved through philosophical reasoning; however databases have become widely available in recent decades, including a wealth of empirical evidence available for attaining one's declared life satisfaction factors, which makes it possible to test the hypotheses arising from debates on happiness. (Becchetti, Marrari, Naticchioni 2010: 2)

Happiness does not result from passiveness or self-satisfied egoism. Enjoyment of life stimulates active participation and nurtures social contacts. It additionally helps one to stay healthy and tends to extend life to a certain degree. Societies have greater prospects of blossoming with satisfied rather than with disappointed citizens. (Veenhoven 1988: 333)

Economic theories are geared towards increasing welfare. Economic policy is vital to economic growth. However, average happiness does not increase in line with economic growth; therefore, the methodological role of economics in human happiness studies is questionable and points to the ultimate denial of a critical assessment of the conduct of selfish interests. Mostly, happiness studies are either empirical or descriptive, based on psychological analysis, while there are a couple of formal economic models used to study human happiness.

Happiness seemingly grows together with income to a certain point, but not beyond. Even in less happy countries, there is no clear relationship between average income and average happiness, which prompts one to conclude that many other factors – including cultural traits are significant. (Graham 2005: 5)

For those who live for money in one age and earn different incomes, money is a certain indicator of the superiority power. Ideas about the essence of morality differ. One view is that of David Hume who advocated mutual collaboration for the common good, whereas Immanuel Kant propagated the interests of equal benefits. The first opinion argues that the greatest burden is imposed on the mighty, whereas the second argues the interests of every person should be considered as being equal. (Dresner 2010: 123)

⁷ *Felicific calculus* – an algorithm, which was formulated by utilitarian and philosopher, Jeremy Bentham, in order to calculate the degree or amount of pleasure. As an ethical hedonist, Bentham believed that the moral correctness or incorrectness of action amounted to the total sum of pain and pleasure attained.

Since happiness studies were first conducted, the average income in most countries has doubled. However, people do not feel an increase in their happiness proportional to their income.

If we want people to become happier, we must know what condition causes happiness and how to cultivate it. (Layard 2006: 4)

Conclusion for the Contemporary World

Reviewing life, we focus our attention firstly on how good we feel, which in turn leads to how well our universal requirements are being satisfied. (Veenhoven 2010: 9)

Happiness is an objective dimension of experience, a real phenomenon. Feeling good can suppress the seeds of feeling bad and overcome problems; therefore a feeling of happiness is contagious and healthy.

The emotional side of happiness consists of what we generally call a feeling of well-being: finding a way in which to enrich our lives with a feeling of satisfaction or fulfilment through it. (Sumner 1996: 146)

On its own, society is currently unable to stimulate the spread of wealth, unless each member of it personally understands the necessity for happiness and its benefits in life. The idea of the greatest happiness has two functions. This can assist dispassionate thinking about the organisation of society and it can inspire with a passionate promise of a common good. Modern societies increasingly yearn for the concept of a common good which combines benefits for their members. This is the right concept if we want to increase the common happiness, because no citizen is capable of attaining the ideal through individual action alone. We are each capable of approaching it, provided that we are given common guidelines.

People are social beings who choose company over solitude. Family ties – marriage and social contacts in the form of friendship can make us happy. This shows how important social life is and the sizable contribution it makes to the feeling of happiness. The impression often adhered to by economists is that human interaction has lost its role due to the spread of the Internet environment but it is erroneous. People care about humanity. As social beings, we yearn to trust one another, depend on each other and to be united.

The average happiness of people in different countries can be measured according to six specific key factors– the specified proportion of people who believe that other people can be trusted; the proportion of people who belong to social organisations; the employment level, quality of government, and religious faith. (Layard 2006: 226) This is based on the moral policy of society, teaching in schools, the propositions of executive government regarding the formation of morality, communities and workplaces.

A rapid increment often results in bigger rents, housing shortages, spiralling costs and a demand for bigger salaries to keep pace with the increased cost of living. (Kinsley, Hunter 1997: 1)

People experience status in a certain way. Efforts to do many things as well as others are integral to the motivation known as the *rat race*. By working harder, people bring their duties, income and status into line with other people whom they wish to emulate.

These people don't even imagine that the real reason for financial difficulties is the way they spend the money they earn. They don't know how to behave with money and cannot differentiate assets from liabilities. (Kijosaki, Lektere 1998: 69)

At the same time, others lose out, because their income proportionally remains the same or is comparably lower and this is a bigger manifestation of loss than the benefit from any increase. People, who strive, do not appreciate the fact that others along their path are downgraded, as we are increasingly urged and stimulated to reach our target.

Economic growth does not multiply happiness in itself, and if it does, then perhaps only temporarily. After some time, people become accustomed to their new standards of living and return to the condition of feeling unhappy which they found themselves in before, but now do so at a higher level of consumption. (Easterlin 1996)

Only the poorest people can be happy to receive a tiny amount of money. Such a drastic impact of fluctuations is only applicable to dealings involving money; it cannot be compared to relations with friends or colleagues; the extent to which we become dependent on the power of money and the significance that we allocate to this, allowing it to affect our psyche, morality and thinking depends on us. Individual countries regulate the pursuit of money through their tax systems, by making people who work excessively pay higher taxes.

Money is a fundamental aspect of human life everywhere around the world. (Diener, Biswas-Diener 2002: 120)

From Eastern cultures we have adopted rituals of prayer and silence, yoga, philosophies, meditations and other spiritual methods. For those who don't create answers, this process of discovery can be beneficial. Much more radical methods are required for attaining clarity of mind; during the past 50 years, the pharmaceutical industry has developed a wide range of anti-depressants – a relative source of happiness.

Many actions which we carry out every day are not achieved in willing exchange – neither taste nor hopes, nor regulations. Consequently, this affects the aspect of happiness. People are becoming increasingly individual, particularly in countries that are economically better off. The task of executive government ought to be to supervise not only financial benefits, but also to supervise the growth of the satisfaction and happiness of inhabitants.

The future, of course, remains unknown to us, but in any case we consider happiness to be a goal and fulfilment. If this is true, we will describe those among the living as happy people to whom the aforementioned words apply and will continue to do so. (Aristotelis 1985: 42)

Conclusions

Man's true goal in life is welfare. This incorporates material aspects, human relations, social contacts, nature, security, cultural values, legal and ethnic aspects, religious freedom and all the rest. Welfare is important and it shapes common satisfaction and sustainability, which can be evaluated with an economically calculated number.

The human race is programmed to crave happiness. If we are programmed to seek opportunities to be happy, then it's no surprise that happiness should be one of the central subjects in life.

People have latched onto status in society and its increment has even less influence than even the slightest reduction. People like certain things, places and people. Happiness, not dynamics, must be called the goal of public policy.

Essentially people are flexible and capable of adapting. This is the reason why economic growth has not made people proportionally happier to such an extent as might have been expected. Income makes people dependent. Factors related to happiness are not influenced by income, but rather its fluctuations.

Even though the pleasure which we derive from the power of money is fleeting, its power is so great that we want to feel it more often. This attainment of pleasure is a characteristic which reflects contemporary life in a highly symbolic way.

If each of us just looks after himself and his welfare, we will soon feel lonely and too tired from longing. Instead, we must expand our field of vision and include the public around us in our view. We desperately want to find a formula for common good. Happiness comes from outside and from inside. And this is no contradiction. Life is for living.

Social progress is driven by longing for an abundant and happy life, which we attain indirectly through financial security and its benefits and the foundations of welfare, which duly improve its essence. Using quantitative methods representing various opinions; as a result of the study and through discussion, we have clarified the correlation between money and welfare. The goal of this conceptual article has been achieved by determining what regulates the speed of social progress.

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MARKETING AND POLITICS

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Abstract

Political marketing is an attempt to conceptualize the trends in politics from the perspective of marketing that has originated in the commercial environment, and one of its main principles is the focus on customers' needs. This paper explores definitions of political marketing with the aim to evaluate the scope of the marketing elements that are relevant to politics. The research findings suggest that communication is the main element of political marketing, because politics as a field is different from the commercial world, and the understanding of political marketing as a concept that implies focus on voters' needs is rather idealistic.

Keywords: *Marketing, political marketing, political communication, political campaigns.*

Introduction

The importance of the concept of political marketing increases due to the fact that in a contemporary world the partisanship of political parties decreases and the election process becomes more unclear and unstable. (Plasser&Plasser 2000: 3) As implies the term 'political marketing' it relates to the process of the convergence of politics and marketing. The idea that the principles and techniques of marketing can be used in politics relates to the tendency to broaden the understanding of marketing since the middle of the last century, and to define it as the use of marketing functions and techniques in economic, social, commercial and non-commercial processes (Bartels 1974: 73). This can be explained by the fact that commercial organizations' survival is primarily dependant on the goodwill of its customers, therefore they have the most comprehensive knowledge about identification and satisfying of customer needs. This is the main reason why non-commercial organizations use and apply marketing principles worked out in a business sphere. (Kotler&Levy 1969: 13)

The aim of the paper is to explore the definitions of political marketing given by the leading scholars of the field from the perspective of marketing elements that are applied to politics. The research method is analysis of the political marketing definitions given in the theoretical literature of political marketing, and the main research question relates to the essence of marketing – is political marketing a concept that implies the responsiveness to voters' needs or is it rather a sophisticated form of

persuasion? The analysis of the definitions of political marketing is complemented with a conceptual explanation why the idea of responsiveness to voters' needs is a theoretical construct, which can be bypassed in a political practice.

What is Political Marketing?

Political marketing as an academic discipline is vigorously developing and there is a wide academic debate about the substance of the discipline. (Scammel 1999; Lees-Marshment 2001; O'Shaughnessy & Henneberg 2002; Hughes & Dann 2006) The essence of the political marketing is application of marketing principles and procedures in political campaigns (Newman 2002: 983), but the cornerstone of the idea of marketing is that "customer wanted satisfaction is the economic and social justification for an organization's existence". (O'Cass 1996: 38) Therefore the focus on voters' needs and mutually beneficial exchange relationships in political sphere is an important part of many political marketing definitions given by the leading scholars in the discipline.

One of the first attempts to define political marketing was made by Shama (Shama 1976):

Political marketing is the process by which political candidates and ideas are directed at the voters in order to satisfy their political needs and thus gain their support for the candidate and ideas in question. (Shama 1976: 766)

Shama's understanding of political marketing to a great extent corresponds to the idea of commercial marketing as he states that the marketing concept orientation in politics means "offering goods and services that satisfy consumer needs and wants". (Shama 1976: 766) He outlines the similarities of election and marketing processes by defining a list of marketing elements and their equivalents in politics. (Shama 1976: 765) In Shama's conception political marketing is primarily related to the election process and the "product" of political marketing is political candidates. (Shama 1976: 765) He also equals consumers and voters, and from here one can conclude that in his understanding the relationship between political candidates and voters is the same as between producers and consumers of commercial goods and services. In fact, the milestone of the beginning of the marketing concept orientation in the USA according to Shama is the Watergate scandal that brought into politics greater focus on voters' opinions, needs, and expectations; the integration of various marketing activities in order to achieve better results; and the idea that politicians must focus on voters needs also after the elections in order to get their long-term support. (Shama 1976: 770)

Further analysis of attempts to apply marketing elements to politics can be done by taking a look at the approach to political campaign analysis developed by Farrell and Wortman (1987). They make a comparative analysis of political campaigns on the basis of well-known marketing mix model (McCarthy 1960) that has four basic elements: product, promotion, place and price. On the one hand, Farrell and Wortman make direct transfer of the marketing mix model to politics, but on the other hand,

their interpretations of each element of the marketing mix are rather flexible in comparison with the way how they are used in commercial marketing. According to Farrel and Wortman (Farrel, Wortman 1987: 298–299), a product is the image of a political party or a political leader, political manifests or political issues; promotion is communication policies that are structured as follows: indirect (communication with voters via mass media) and direct (communication with voters without the mass media); place relates to the logistics of communication (selection of target groups, coordination of communication, internal communication network etc.); price – the authors of this concept admit that it is hard to say what is the equivalent of “price” in politics, but it can be concluded that most likely it is a number of votes gained during elections.

Despite the fact that the perspective of marketing might be a relevant approach for analysis of political campaigns, as the outer manifestations of the marketing of political candidates are similar to the marketing of consumer goods and services, the application of the marketing mix model to politics is problematic, because only communication (promotion) is directly identifiable in politics. The rest of the marketing mix elements – product, place, and price are open to interpretations of theorists on political marketing. The most obvious argument in favor of this statement is the fact that Farrell and Wortman faced difficulties in operationalizing the element ‘price’, but the element ‘place’ was also related to certain aspects of political communication that in the commercial marketing mix concept relates to promotion. The fact that Farrell’s and Wortman’s (Farrell & Wortman 1987) understanding of political marketing places the greatest emphasis on political communication is demonstrated in their definition of political marketing:

Political marketing is defined as the application of promotional activities to direct and exchange with voters through the use of such instruments as product policy, communication policies and distribution. (Farrell & Wortman 1987: 297)

The problem of political marketing is also apparent in the comparison how Shama, Farrell and Wortman interpret the marketing element ‘product’ in the context of politics. Shama says that a political candidate is the product of political marketing, but in the theoretical concept of Farrell and Wortman it is the image of a political party or a political leader, political manifest or political issues. It demonstrates the fact that the idea of a “political product” is not as obvious as is the idea of a “commercial product”, because almost always the consumer of commercial goods and services exactly knows what does he/she pays for. On the contrary, in a political context the understanding of the “political product” is left open to various interpretations of theorists, and it can be assumed that one would get a wide spectrum of citizens’ answers to the question: “What factors influence you to change your vote during the elections?” Further conceptualizations of political marketing to a great extent depend on the interpretation

of the “political product”, but since it is a vague concept, the whole theoretical concept can be questioned in regards to its capability to explain the actual political process.

For instance, Harrop’s (Harrop 1990: 278) approach to political marketing differs from Shama’s, Farrell’s and Wortman’s conceptions in such aspect that, in his opinion, political marketing belongs to the field of services marketing, and political parties provide to their citizens the service of the state management. From such perspective the main task of the political marketing is to demonstrate the ability of the party to govern (Harrop 1990: 278). Despite the different approach to the essence of political marketing by Harrop, he also points out that one of the very important elements of political marketing is promotion. (Harroplitical marketing): 1) strategy, which is responsible for providing what people want; 2) promotion, which is the sale of the things you have decided to provide. (Harrop 1990: 277)

According to Harrop, the strategy is a long-term solution, but promotion is a short-term solution, because it is impossible to correct long-term mistakes with a promotional solutions. Strategic thinking is of crucial importance in such tasks as selection of party leader, party activist management, and policy development. (Harrop 1990: 288)

Newman’s (Newman 2002) political marketing definition broadens the view of political marketing from election process to all types of political campaigns that are used for the purpose of the achievement of one’s political goals:

Political marketing is the application of marketing principles and procedures in political campaigns by various individuals and organizations. The procedures involved include the analysis, development, execution, and management of strategic campaigns by candidates, political parties, governments, lobbyists and interest groups that seek to drive public opinion, advance their own ideologies, win elections, and pass legislation and referenda in response to the needs and wants of selected people and groups in a society. (Newman 2002: 983)

In this definition the main focus is on the application of such marketing principles and procedures in politics as analysis, development, execution and management of political campaigns. Thereby it is a perspective on marketing as an activity and process, rather than an attempt to adapt certain elements of commercial marketing to political context. According to Newman, political marketing can be carried out not only by political candidates and parties, but also by governments, lobbyists and interest groups, and all these activities should be performed in response to the needs and wants of target groups of a political campaign. It is important to note that this approach stresses strategic and tactical marketing management rather than political communication as one of the most important elements of political marketing. It is interesting to note that political marketer should be responsive to the needs and wants of the selected groups of society, which is the principle of segmentation – a very important element of strategic marketing.

Henneberg (Henneberg 2002) has developed his political marketing definition on the basis of the relationship marketing definition (Grönroos 1990), which includes marketing of government, interest groups, and political parties, and is focused on strategic and common goals, without emphasis on instrumental aspects of marketing:

Political marketing seeks to establish, maintain and enhance long-term political relationships at a profit for society, so that the objectives of the individual political actors and organizations are involved are met. This is done by mutual exchange and fulfillment of promises. (Grönroos 1990: 103)

Newman's and Henneberg's definitions are close in the sense, that in their opinion political marketing is a tool for the achievement of one's political goals. Although the viewpoint of Henneberg is broader – in his definition political marketing is long-term relationships based on mutual exchange and fulfillment of promises. It is worth to stress that from this point of view, the precondition for achievement of goals of political actors is observing the interests of the society. In this approach one can see the cornerstone of the marketing concept that customers' need for satisfaction is the main justification of the existence of an organization (O'Cass 1996: 38). One can find the same approach in the definition of political marketing by Lees-Marshment (Lees-Marshment 2009):

Political marketing is about political organizations (such as political parties, parliaments and government departments) adapting techniques (such as market research and product design) and concepts (such as the desire to satisfy voters' demands), originally used in the business world, to help them achieve their goals (such as win elections or pass legislation). (Lees-Marshment 2009: 29)

Focus on political communication and mutually beneficial exchange relationship between political organization and its stakeholders is also present in the definition by Hughes and Dann (Hughes and Dann 2006):

Political marketing is a political communications [organizational] function and is a set of processes for creating, communicating and delivering promises of value to customers, and for managing customer relationships in ways that benefit the political organization and its stakeholders.

Mutually beneficial exchange relationship between a political party and its voters is a cornerstone of the political marketing definition by O'Cass (O'Cass 2001) that includes instrumental and relationship aspects of marketing:

Political marketing is the analysis, planning, implementation and control of political and electoral programs designed to create, build and maintain beneficial exchange relationships between a party and voter, for the purpose of achieving the political marketers' objectives. (O'Cass 2001: 1004)

The theoretical definitions of political marketing to a great extent imply the idea of the focus on voters' needs. For instance, Newman points out that the political marketing activities are carried out "in response to the needs and wants of the selected people

and groups in a society” (Newman 2002: 983). Lees-Marshment speaks about political organizations adapting such marketing concepts as “desire to satisfy voter demands” (Lees-Marshment 2001: 29). The political marketing definition by O’Cass includes the idea that the task of political marketing is “to create, build and maintain beneficial relationships between a party and voter” (O’Cass 2001: 1004). The political marketing definition by Hughes and Dann says that political promises must be “of value to customers, and for managing customer relationships in ways that benefit the political organization and its stakeholders” (Hughes and Dann 2006: 6). “Long-term political relationships at a profit for society” is anticipated as an instrument for the achievement of the objectives of political actors and organizations in Henneberg’s definition of political marketing (Henneberg, 2002: 103). The important question regarding the focus on voters’ needs as a cornerstone of political marketing is as follows: “Is it an objective prerequisite for the achievement of one’s political goals or just a moral obligation?” The author further outlines some skeptical considerations concerning actual implementation of this principle.

Critique of Political Marketing

The conception of marketing has been developed in the business world, and later applied to other fields as well. However there is a substantial difference between business and political spheres that constitute the problem of the political marketing concept (see Figure 1).

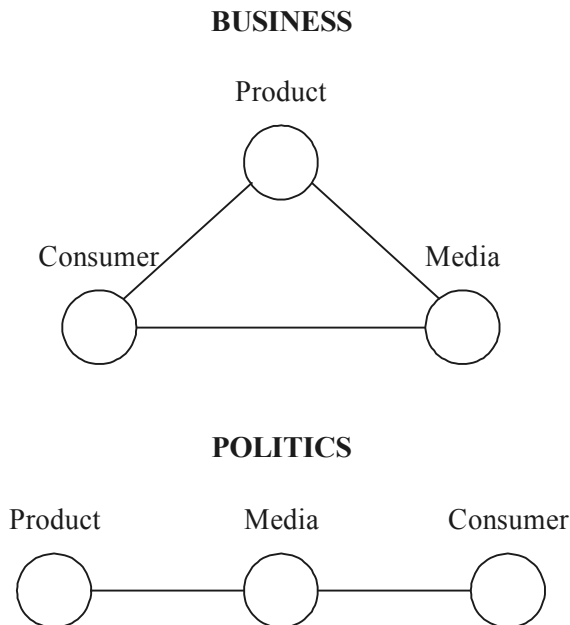


Figure 1. Difference between Business and Political Marketing

The fundamental difference between business marketing and political marketing is that a business consumer has an immediate interaction with the product provided by a business organization. Thereby he/she also has direct control over the product – if it does not “fulfill the promise” provided in marketing communication, the consumer would not buy it for the second time, would give it back to the producer or seek help from the consumer protection association or even sue the business organization. On the contrary, the society or consumers of the “political product” mainly perceive it via the mass media, and their capabilities to control and influence it are rather limited and complicated in comparison with business products. The free market principles naturally force commercial organizations to think about and satisfy their customers’ needs and wants, but politics for the largest part of the society are just a series of stories produced by the news media.

Furthermore it is not quite clear what a ‘political product’ exactly is. It is possible to ask many questions and to provide different interpretations of what a ‘political product’ is. For instance, is it a political candidate, his/her character, reputation and competence, to whom a voter delegates the governing? Perhaps, it can be an election manifest of a political party that holds the main promises for the voters. It could also be the image of a political party and candidate, ideology, decisions and policies made and implemented by politicians, such government services to its citizens as retirement and unemployment allowances, registration of new companies, border guard and others.

One should also take into consideration that contemporary science gives detailed and plausible information about society’s thoughts and emotions, and it can be anticipated what reaction in the society will be raised by certain words, phrases and symbols (Jacobs&Shapiro 2000: 49). As a consequence, the needs and wants of the society can be deliberately influenced, changed and manipulated. Jacobs and Shapiro (Jacobs&Shapiro 2000: xvii) outline the problem that politicians have tools and techniques, which let them avoid the responsibility in front of their voters and society. The media play the main role in society’s perception of politics. Taking into consideration that political reality constructed by the media may differ from actual political processes, one can say that it creates a virtual political reality in mass consciousness. Thereby the satisfying of voters’ needs in politics can be just an illusory statement, because the society can be manipulated in terms of fulfillment of politicians’ promises and even the actual needs of voters can be deliberately constructed with the powerful tools of the mass media.

Conclusions

Most definitions of political marketing include a reference to one of the basic principles of marketing – focus on customers’ needs. However at an instrumental level, the main element of marketing that can be used in politics is communication. The main problem of political marketing is that the society perceives politics via the

mass media, which means that the possibility of manipulation is greater in politics than in business world, because the linkage with actual reality is very limited. In fact, the content of “political product” in theoretical literature to a large extent is left open to various interpretations by theorists, but in the real life it is a virtuality created by mass media and sophisticated communication techniques used by politicians. It is more accurate to interpret political marketing as one of the persuasion forms rather than the idealistic concept of responsiveness to voters needs and wants.

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INNOVATION AS A NEW BUSINESS PHILOSOPHY

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Abstract

Classical and neoclassical scientists on economic growth have highlighted the importance of human capital and innovation as one of the major sources of economic growth.

The purpose of the article is to analyze the theoretical relationship between human capital, innovation activities and economic growth.

The main tasks are to:

- analyze the theoretical aspects of innovation concept in the context of economic growth;
- investigate the theoretical aspects of human capital concept in the context of economic growth;
- examine the key figures related to innovation activities in the context of the European Union.

Within the context of the paper, the author has applied such quantitative and qualitative research methods of economic science as monographic, grouping, reference, generalization, graphical analysis and content analysis. The main findings of the paper reveal the nature of the human capital and impact of innovation activities on economic growth and national competitiveness.

Keywords: *knowledge, innovation, national competitiveness, human capital, economic growth.*

Introduction

Both classical and neoclassical scientists on economic growth have highlighted the importance of human capital and innovation as one of the major sources of economic growth. Mankiw et al., (Mankiw 1992:437) revealed that there is a positive relationship between investment in human capital and economic growth. Taking into consideration that human capital is associated with knowledge and qualifications, while economic growth is related to the progress of technological and scientific knowledge, it is quite obvious to suppose that economic growth significantly depends on human capital and innovation capacity.

In the early 1980's, Romer (Romer 1986:1037) and Lucas (Lucas 1988: 42) introduced endogenous growth models in the context of neoclassical theory of economic growth. Great attention was devoted not only to direct sources of economic growth, but also and mainly to mechanisms and activities linked to the dynamics of growth itself. That is why human capital and creation of innovations are treated as critical factors in order to foster technological progress and, consequently, to foster national competitiveness through economic growth.

Malthus, Young, Ramsey, Knight and Schumpeter (Schumpeter 1912:345) revealed the basic thoughts that form the foundation of modern economic growth: competitive behaviour, equilibrium dynamics, the role of decreasing revenues and its relation to accumulation of human and physical capital, interactions between revenues *per capita* and rate of population growth, effect of technological progress on either a better form of labour specialization or discovery of new goods and processes, etc. However, the early work by Solow "A Contribution to the Theory of Economic Growth" as of 1956 should be mentioned, where economic growth was clearly separated from economic development. According to Solow's Basic Neoclassical Models, technological progress (as the population growth and the workforce) is exogenous to the model. According to Solow (Solow, 1959:90–91), the term "disembodied technological progress" is associated with the investment that does not influence the rate that technology improves: "All technical progresses were something like time-and-motion study, a way of improving the organization and operation of inputs without reference to the nature of the inputs themselves".

Romer (Romer 1986:1037) and Lucas (Lucas 1988:38), as the representatives of the new theories of economic growth stated that accumulation of human capital is a vital determinant of economic growth. This assumption announced beyond the limitations of exogenous technological innovation highlighting the work of Solow, for instance, Lucas (Lucas 1993:32) presumed the following: "The main engine of growth is the accumulation of human capital – of knowledge – and the main source of differences in living standards among the nations are differences in human capital. Physical capital accumulation plays an essential but, decidedly, subsidiary role. Human capital takes place in schools, in research organizations, and in the course of producing goods and engaging in trade".

However, it must be admitted that directly endogenous innovation is a straight factor of economic growth for majority of neoclassical models. In this respect innovation activities are influenced through human capital intensity. In the context of the endogenous growth models, it is necessary to underline some ideas of Arrow (Arrow 1962: 173) that were revealed in his article "The Economic Implications of Learning by Doing". According to the Arrow's model, it was assumed that firm's productivity was an increasing function of cumulative aggregate investment of industry. In other words, increasing revenues occur as a result of discovering new knowledge, as

investment and production take place. Knowledge acquisition was treated as learning, which, in this respect, was a result of experience and, therefore, this kind of learning occurs as a consequence of productive actions. The main idea is implicated in the statement that externalities are represented through generic technological knowledge that can be used to develop new production methods and can be available for all the firms in the industry.

According to Lucas (Lucas 1988:42), externalities reflected in the public learning that increases the stock of human capital. Not only internal effect of human capital (individual impact on own productivity) but also external effect of human capital/aggregated qualification contributed to the productivity of all factors.

Romer (Romer 1986:1000) and Lucas (Lucas 1988:40) suggested that technological progress steps in the general form of production function of the particular firm in two ways:

- The term describes the effect of private investments on knowledge and exhibits usual characteristics.
- The term describes the existence of knowledge spillovers that are connected to the investments in knowledge by other firms.
- The general form of Romer (Romer 1986:1011) and Lucas (Lucas 1988: 14) model is represented as follows:

$$Y_i = F_i (H_i, L_i, H) \quad (1)$$

Where:

Y_i – the output of the i th firm,

H_i – the stock of investment in technological progress representing the human capital in Lucas (Lucas 1988:14) of the i th firm,

L_i – the quantity of the labour force used by the i th firm, H is the total amount of stock of investment in technological progress available to all firms of the economy in Romer (Romer 1986:1011), represented by a sum of all individual H_i and in Lucas (Lucas 1988:15), represented by an average level of human capital. In this respect, the firms are considered identical.

In terms of later works on endogenous growth, for example, Grossman and Helpman (Grossman and Helpman 1990, 1991), Romer (Romer 1990a), Aghion and Howitt (Aghion and Howitt, 1992:815), the importance of microeconomic activities for economic growth was emphasized. It was argued that growth of productivity in caching – up countries highly depends on intensity of international trade and the capacity of internal technological adoption, taking into consideration the existence of higher levels of human capital. In other words, according to Lucas (Lucas, 1988) and Romer (Romer 1990 a:101), the possibility of higher productivity growth in caching – up the countries depends on the diffusion of knowledge that is already available in industrialized countries. Human capital will be productive only in case of changes, which take place in technology, in other words, education will increase the human capacity to cope with rapid changes in knowledge.

Theoretical Aspects of Human Capital Concept in the Context of Economic Growth

Backer created a fundamental assumption that is implicated in the statement that humans possess the skills and abilities (or in another words, human capital) that can be improved and this kind of change may affect the way people act (Backer 1964:109). The main components of human capital such as skills, knowledge and people's expertise are treated as an important source of competitive advantage to individuals, organizations and societies. (Gimeno 1997: 755)

The relationship between human capital and innovation at the state level is based on Bourdieu's definition of the concept "conversation". (Bourdieu 1986: 250) The main idea is stated as follows: "Different kinds of capabilities can be transformed or converted into resources and in other forms of economic benefits".

Gradstein and Justman stated, "At the individual level, those who have higher level of education tend to have more extensive work experience and along with that fact this kind of individuals tend to spent more time and energy, resources in order to reach the highest benefits for themselves, however, at the same time, their skills, contribute to the overall well-being of society on the whole". (Gradstein and Justman 2000: 888)

At the macro level, it should be pointed out that there is empirical evidence that accumulation of human capital forms a vital contribution to the economic growth. According to Barro (Barro 1991: 440), the initial quantity of human capital is strongly related to the rate of output growth. This kind of evidence has a high level of belief because of the study period: from 1960–1985 and quantity: 98 countries were involved. According to Levine and Renelt, there is a strong relationship between human capital (respectively, the rate of high school education) and the rate of real growth of output *per capita*. According to Nelson and Phelps, technical progress highly depends on the gap between the knowledge level of the state and the level of "theoretical knowledge". According to Benhabib and Spiegel (Benhabib and Spiegel 1994:170), human capital affects growth both directly: by influencing the rate of technological innovation of the state and indirectly: by influencing the pace of adoption of technologies from outside. This kind of evidence has also a high-level of belief because of the study period: from 1960 – 1985 and quantity: 78 countries were involved. In the context of the research results it was announced that "human capital is strongly needed for adoption and creation of technology adapted to internal needs".

Teixeira (Teixeira 1997:441), Pina and St. Aubyn (Pina and St. Aubyn 2002: 15) suggested that there is a meaningful long-run economic relationship between the output and human capital, taking into account that human capital is an important variable that helps to describe and explain economic growth.

As the matter of fact, growth process in small caching – up countries highly depends on diffusion of technology rather than on technology creation. In this respect Verspagen (Verspagen 1993: 21) admitted, “The caching – up countries combine low population growth with high investment ratios, but relatively low R&D intensities. Thus, they appear to rely on diffusion of knowledge rather than on creation of knowledge.”

Theoretical Aspects of Innovation Concept in the Context of Economic Growth

It is no secret that new technologies foster and ensure the long run productivity growth. However, first of all it is needed to draw one’s attention to the content of innovation term.

Plessis stated: “Innovation as a creation of new knowledge and ideas to facilitate new business outcomes, aimed at improving internal business processes and structures, and to create market driven products and services. Innovation encompasses both radical and incremental innovation”. (Plessis 2007: 21)

Dosi (Dosi 1990: 299) announced: “Innovation concerns processes of learning and discovery about new products, new production processes and new forms of economic organization, about which, *ex ante*, economic actors often possess only rather unstructured beliefs on some unexploited opportunities, and which, *ex post*, are generally checked and selected, in non-centrally planned economies, by some competitive interactions, of whatever form in product market.”

Thompson (Thompson 1965:2) suggested, “Innovation is the generation, acceptance and implementation of new ideas, processes products or services.”

Van du Ven et al., proposed, “As long as the idea is perceived as new to the people involved, it is an ‘innovation’ even though it may appear to others to be an ‘imitation’ of something that exists elsewhere.”

Damanpour (Damanpour 2006:694) notes, “Innovation is conceived as a means of changing an organization, either as a response to changes in the external environment or as a pre-emptive action to influence the environment. Hence, innovation is here broadly defined to encompass a range of types, including new product or service, new process technology, new organization structure or administrative systems, or new plans or program pertaining to organization members.”

Various authors suggest that countries can benefit from high-level of external R&D, even without huge internal expenditures on R&D, just through acquisition of rights for patents, trade of goods with incorporated R&D and franchising. For instance, Coe, Helpman and Hoffmaister (Helpman and Hoffmaister 1995:67), Griliches (Griliches 1995:89), Caballero and Jaffe (Caballero and Jaffe 1993:70), Englander and Gurney

(Englander and Gurney 1994:100) noted that in terms of the research results the reduction of productivity gap between the US and other countries was a result of that the R&D of the other countries was formed by the adoption and acquisition of technologies from the US.

Coe and Helpman (Coe and Helpman 1993:37) investigated the relationship between R&D and productivity in 22 (21 OECD plus Israel) countries industrialized economies from 1971 to 1990. The scientists studied the relation between increase in the total factor productivity and changes in stock of R&D, estimated by the cumulative cost of R&D. The conclusion of the research reflected the determination of a positive relationship between R&D stock of the state and its own productivity. In addition to the all the above-mentioned, it was also confirmed that expenditures on R&D of the state have a strong impact on national productivity. Finally, it was also concluded that small economies benefit highly from external R&D stock rather than big economies. According to Coe and Helpman (Coe and Helpman 1993:40), expenditures on external R&D in small-industrialized economies have a bigger effect on productivity rather than their own research effort.

Key Figures Related to Innovation Activities in the Context of the European Union

In reality it should be admitted that Denmark, Luxembourg, Belgium, Estonia, Austria were holding the leading positions in selling goods in the EU and any other country as well as in selling goods in local and national market in 2006. The worst tale of the graph as the most poor positions in selling goods in the EU and any other country as well as in selling goods in local and national market in 2006 was represented by such countries as Romania, Slovakia, Bulgaria, Hungary and the Czech Republic.

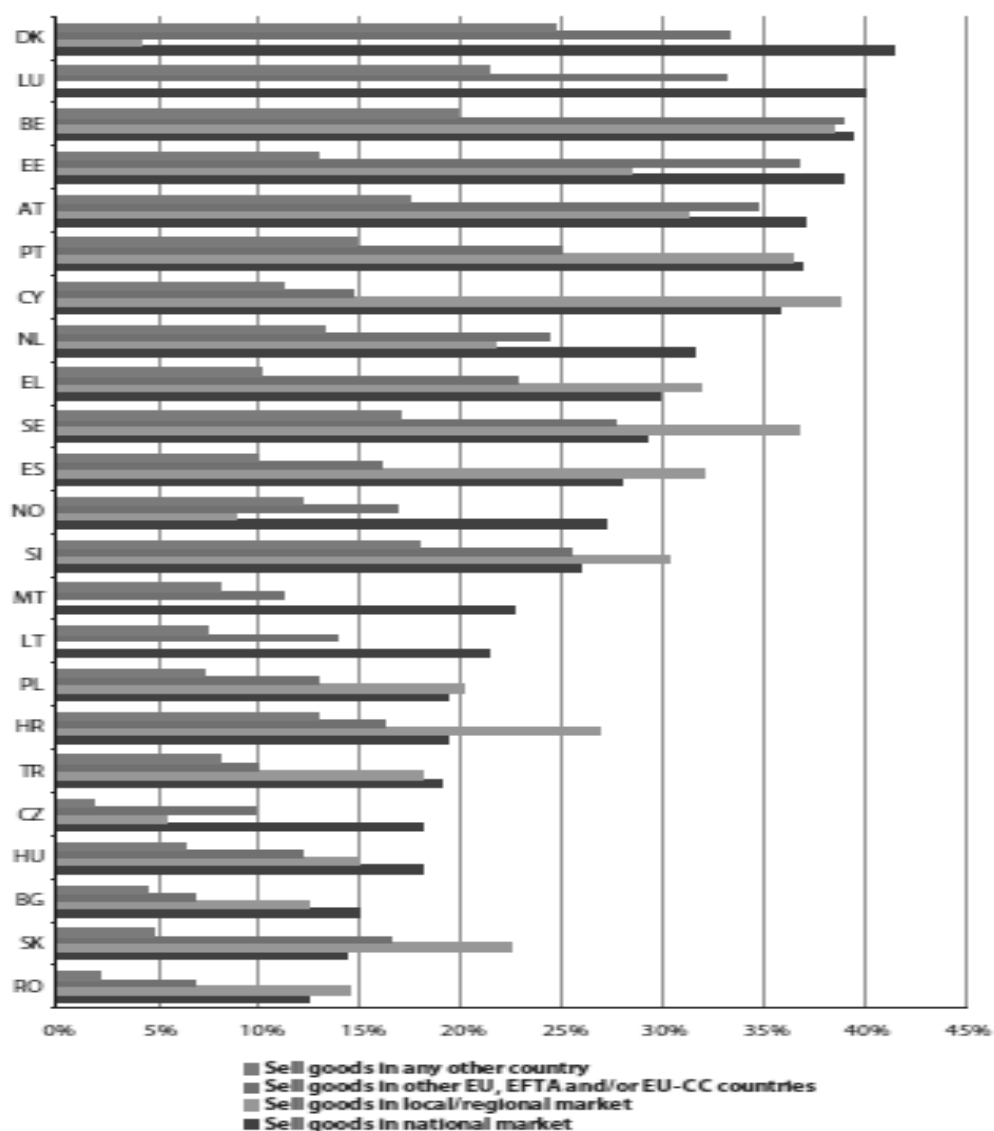


Figure 1. Geographic Markets of Innovative Enterprises as a Percentage of Innovative Enterprises by Country – 2006. Source: Eurostat Pocketbook (2010). Science, Technology and Innovation in Europe. 2010 edition. ISSN 1830-75-4X

Table 1

Cost and Market Hampering Factors as a Percentage of Innovative Enterprises by Country – 2006

| | Cost factors | | | Market factors | |
|----|--|--|---------------------------|---|--|
| | Lack of funds within your enterprise or enterprise group | Lack of finance from sources outside your enterprise | Innovation costs too high | Uncertain demand for innovative goods or services | Markets dominated by established enterprises |
| BE | - | - | - | - | - |
| BG | 19.6 | 15.3 | 23.6 | 10.3 | 12.0 |
| CZ | 21.9 | 12.6 | 17.7 | 9.0 | 14.1 |
| DK | - | - | - | - | - |
| DE | - | - | - | - | - |
| EE | 21.6 | 16.3 | 16.5 | 4.9 | 10.2 |
| IE | 18.6 | 12.2 | 16.3 | 14.1 | 14.9 |
| EL | 18.5 | 16.2 | 9.5 | 23.2 | 24.2 |
| ES | 25.7 | 23.3 | 34.8 | 18.8 | 18.7 |
| FR | - | - | - | - | - |
| IT | - | - | - | - | - |
| CY | 18.9 | 19.1 | 28.5 | 14.2 | 7.8 |
| LV | 28.9 | 23.1 | 36.5 | 17.8 | 22.4 |
| LT | 25.1 | 19.8 | 29.5 | 7.2 | 17.8 |
| LU | 15.7 | 6.1 | 12.1 | 12.9 | 14.9 |
| HU | 28.8 | 19.9 | 27.3 | 14.0 | 15.4 |
| MT | 12.8 | 10.8 | 16.9 | 11.3 | 10.8 |
| NL | 8.5 | 4.7 | 7.6 | 4.0 | 4.8 |
| AT | 21.0 | 14.7 | 18.6 | 9.4 | 12.4 |
| PL | 28.8 | 25.0 | 29.7 | 14.6 | 16.0 |
| PT | 26.8 | 26.2 | 36.6 | 16.3 | 15.1 |
| RO | 30.6 | 31.0 | 28.6 | 13.3 | 18.9 |
| SI | - | - | - | - | - |
| SK | 20.2 | 14.5 | 22.2 | 8.2 | 12.6 |
| FI | - | - | - | - | - |
| SE | 15.5 | - | 11.5 | - | 14.4 |
| UK | - | - | - | - | - |
| HR | 35.9 | 27.2 | 35.8 | 8.2 | 17.9 |
| TR | 27.3 | 17.0 | 34.4 | 14.3 | 13.0 |
| NO | 14.0 | 9.0 | 15.7 | 6.9 | 6.6 |

Source: Eurostat Pocketbook (2010). Science, technology and innovation in Europe. 2010 edition. ISSN 1830-75-4X

According to the Eurostat Pocketbook (2010) on science, technology and innovation in Europe, it is argued that specific cost, market and knowledge factors have high impact on the activity of the innovative enterprises. Lack of funds within an enterprise or enterprise group was mentioned as a hampering cost factor for innovation creation by innovative enterprises mostly in the Czech Republic, Estonia, Spain, Lithuania, Hungary, Austria, Poland, Portugal and Romania. Lack of funding from sources outside an enterprise was mentioned as a hampering cost factor for innovation creation by innovative enterprises mostly in Spain, Latvia, Lithuania, Hungary, Poland, Portugal

and Romania. The costs of innovation creation were too high in the opinion of the Bulgarian, Spanish, Cyprian, Latvian, Lithuanian, Hungarian, Polish, Romanian and Slovakian enterprises in 2006. Uncertain demand for innovative goods or services as a hampering market factor was mentioned by innovative enterprises mostly in Greece, Spain, Latvia and Portugal. The markets dominated by the established enterprises were mentioned as a hampering market factor by innovative enterprises mostly in Greece, Spain, Latvia, Lithuania and Romania.

Table 2

**Knowledge Hampering Factors as a Percentage of
Innovative Enterprises by Country – 2006**

| | Lack of qualified personnel | Lack of information on technology | Lack of information on markets | Difficulty in finding cooperation partners for innovation |
|----|-----------------------------|-----------------------------------|--------------------------------|---|
| BE | : | : | : | : |
| BG | 10.7 | 5.3 | 6.1 | 9.5 |
| CZ | 15.4 | 2.1 | 2.7 | 3.0 |
| DK | : | : | : | : |
| DE | : | : | : | : |
| EE | 23.1 | 4.0 | 4.9 | 5.9 |
| IE | 10.1 | 3.4 | 6.1 | 6.2 |
| EL | 26.2 | 30.5 | 35.6 | 19.5 |
| ES | 16.6 | 11.1 | 8.5 | 11.9 |
| FR | : | : | : | : |
| IT | : | : | : | : |
| CY | 15.2 | 6.2 | 2.7 | 7.0 |
| LV | 20.8 | 11.9 | 1.3 | 14.8 |
| LT | 25.2 | 2.7 | 5.0 | 8.9 |
| LU | 20.4 | 3.4 | 3.4 | 8.5 |
| HU | 14.0 | 3.6 | 3.8 | 6.6 |
| MT | 7.2 | 2.1 | 5.6 | 6.2 |
| NL | 7.0 | 2.6 | 2.7 | 2.0 |
| AT | 16.7 | 3.4 | 4.1 | 6.7 |
| PL | 7.3 | 4.3 | 4.4 | 8.7 |
| PT | 13.3 | 5.5 | 6.9 | 12.6 |
| RO | 13.5 | 5.5 | 5.3 | 14.4 |
| SI | : | : | : | : |
| SK | 9.6 | 1.7 | 1.8 | 5.3 |
| FI | : | : | : | : |
| SE | 15.9 | : | : | : |
| UK | : | : | : | : |
| HR | 20.6 | 6.6 | 5.7 | 10.5 |
| TR | 17.6 | 9.2 | 6.1 | 10.7 |
| NO | 13.8 | 3.2 | 3.8 | 3.8 |

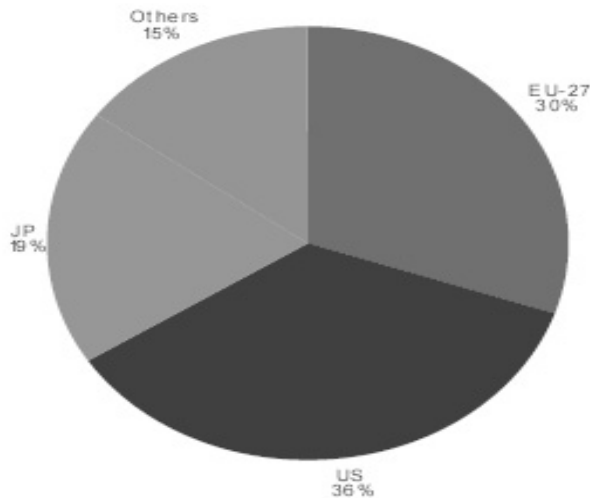
Source: Eurostat Pocketbook (2010). Science, technology and innovation in Europe. 2010 edition. ISSN 1830-75-4X

As the matter of fact, it is quite important to observe not only cost and market hampering factors in the context of innovation creation in the EU, but attention should also be given to knowledge hampering factors. Lack of qualified personnel was recorded mainly in Estonia, Greece, Latvia, Lithuania and Austria. Lack of information on

technology as the knowledge hampering factor was mentioned by innovative enterprises mainly in Greece, Spain and Latvia. Lack of information on markets was remarked in Greece and Spain. Finally, difficulty in finding cooperation partners for innovation was recorded in Greece, Spain, Latvia, Romania and Portugal in 2006.

It should be pointed out that patents are treated as an indicator of innovative developments in wide area of technology and they also determine the level of innovative activity in a particular market region or country. Patents play an increasingly vital role in innovation creation and economic growth. According to the OECD, “A patent is an exclusive right to exploit (make, use, sell or import) on invention over a limited period of time (20 years from filing) with the country where the application is made”. (OECD Innovation Strategy, 2010) According to Eurostat, “A patent is a legal title granting the holder the exclusive right to make use of an invention for a limited area and time”. (Eurostat Pocketbook 2010) An invention needs to fulfil the following three criteria in order to be granted a patent:

- novelty;
- inventive step;
- industrial applicability.



Source: Eurostat Pocketbook (2010). Science, technology and innovation in Europe. 2010 edition. ISSN 1830-75-4X

Figure 2. Distribution of Nanotechnology Patent Application to the EPO, EU-27, Japan and the United States and others – 2005.

In reality, the highest percentage of patent applications by the business enterprise sector was recorded in such countries as Malta (99,0%), Japan (96,6%), Sweden (94,5%), Finland (94,5%), Denmark (90,8%) (see Figure 2). The average percentage of patent application by a business enterprise in the EU-27 stood at 85,7% in 2005. The poorest tale

of the graph was represented by such countries as Turkey (24,0%), Lithuania (41,6%), Bulgaria (46,1%), Estonia (48,9%) and Romania (51,1%). (Eurostat Pocketbooks, 2010)

Taking into account the data of the Eurostat Pocketbook (2010) on science, technology and innovation, it should be pointed out that the United States of America held the leading position (36%) in the application of nanotechnology patent to the European Patent Office in 2005, while the EU-27 ranked in the second place with 30% and Japan held the third place with 19%.

Conclusions

Human capital is the core of innovation because people are those who generate the ideas and knowledge that in a straight way promote creation of innovations.

The contribution of knowledge and innovation competitiveness is obvious and, therefore, there is a need not only to provide sufficient investment in human capital but also empower people to innovate. In this respect, it is quite vital to rely not only on broad and relevant education, but also on the development of wide range of skills that replenish formal education.

In the context of global economic downturn and social challenges the implementation of the effective innovation strategy would lead to the creation of the firm competitive advantages and development of the wealth of nations. Increased innovation capacity is the main source of future economic growth and sustainable development.

Countries need a strong patent system in order to attract foreign direct investments and encourage local investments in research.

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Abbreviations and symbols

| | | | |
|----|----------------|-------|---|
| BE | Belgium | SI | Slovenia |
| BG | Bulgaria | SK | Slovakia |
| CZ | Czech Republic | FI | Finland |
| DK | Denmark | SE | Sweden |
| DE | Germany | UK | United Kingdom |
| EE | Estonia | | |
| IE | Ireland | MK | Former Yugoslav Republic of Macedonia |
| EL | Greece | HR | Croatia |
| ES | Spain | TR | Turkey |
| FR | France | LI | Lichtenstein |
| IT | Italy | | |
| CY | Cyprus | IS | Iceland |
| LV | Latvia | NO | Norway |
| LT | Lithuania | AL | Albania |
| LU | Luxembourg | | |
| HU | Hungary | | |
| MT | Malta | EU-27 | European Union (27 Member States) |
| NL | Netherlands | OECD | Organization for Economic Cooperation and Development |
| AT | Austria | R&D | research and development |
| PL | Poland | EPO | European Patent Office |
| PT | Portugal | | |
| RO | Romania | | |

FOREIGN EXPERIENCE OF CLUSTER FUNCTIONING IN EU COUNTRIES

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Abstract

Article reflects the nature of competitive production clusters' formation, distinguishes the most popular types of clusters, generalizes the experience of well-known clusters in EU countries as well as potential problems in relation to clusterization process that provided the ground for putting forth series of suggestions for strategic strengthening by means of integration clusters of production and scientifically educational process in the LR regions.

Keywords: *international competition, crisis, Latvian economy, industry, innovative development, region, scientific-educational cluster, Finland.*

Introduction

Results of the given research in the current version probably should be considered in the light of essential further elaboration of domestic economy development strategy the topicality of which had increased within the framework of well-known intensity of emerging negotiatory consequences to yet unsolved global crisis of world's economy especially relating to Latvian economy putting even more focus on majority of Western European Union members including other Baltic region countries. In this respect data provided by the professor I. Brivers from BA School of Business and Finance indicate that already in 2008 there had been at least 120 top-priority programmes of strategic development adopted after the restoration of independent Republic of Latvia. He especially emphasized – perhaps even making the picture worse than it is – that “eventually these programmes brought us to the economic disaster!”. (Гришин, Хандурин 2010: 120; Гришин, Цауркубуле 2010: 101; Гришин 2011: 31)

In our opinion the low efficiency and obvious declarative character of similar governmental programmes are indisputable, for instance, in case of aid to small business, development of innovations and tourism, industrial policy, improvement of investment climate or increasing of business activity, stabilization of financial system, transition to euro etc. Furthermore it is also indisputable that the rotating government especially in the first half of 90ies, regardless of declaration, evidently underestimated the legacy of the Soviet times regarding the high economic potential of Latvian economy and industry. (Гришин 1994: 5, 8, 9) So the opportunities of creative synthesis in up-to-date contradictory conditions of developing regionalization and globalization¹ processes of world's economy relations within the framework of classic conception of comparative advantages and neoclassic conception of international competitiveness were virtually neglected. Regardless of that, in variety of Latvian industrial sectors, for instance – wood processing and metal working (except for machine-building industry, production of equipment and furniture), raw material industry, manufacturing of polygraphy, paper, rubber and plastic articles – industrial potential not only remained but also expanded considerably.

It is exactly in the indicated sectors of Latvian industry and manufacturing in 2008 if compared to 1990 (in comparable prices, 1990= 100%) where one could observe the output ranging from **176** to **427%** while in the entire Latvian industry this indicator did not manage to reach even **70%**. Therefore in the face of the still unceasing consequences of global upset of world's financial system 2007–2008 (Кейш, Гришин 2010: 73) one could not considerably overturn the achieved high level of Latvian economy in the above mentioned sectors. Moreover by the end of 2010 we observed obvious signs of revivification and future potential recovery of domestic economy. In this respect a special attention should be paid to the analysis of perspectives of foreign experience application to Latvian economy regarding the functioning of regional production clusters including the small countries of EU.

Objective of the present research is to substantiate in the present form the possibility to implement in domestic regional economy the processes of clusterization predominantly as *regional innovative educational clusters* that are essential for strategic development and recovery of the remaining industrial potential in visible perspective.

In order to achieve this goal the following **tasks** were determined:

- to reflect the features and purposefulness of formation of competitive production clusters within the framework of Porter's theory of international competition;
- to find out the most popular forms of clusters, especially those typical for condition of growing globalization of world's economy;

¹ Contradictory processes of globalization and regionalization topical for development of Latvian economy are described in several of our publications (Гришин, 2004, с. 3–22; Гришин, 2003, лр. 85 – 100; Гришин, 2005, с. 188 – 212; Гришин, 2008, с. 103–132).

- to summarize experience of expansion of various cluster areas in series of advanced and developing countries;
- describe the potential typical problems of clusterization process.

Research methods and methodology: monographic method, synthesis and analysis, creative matching of system and situative approach, logically constructive method.

Results and discussion

Causes, prerequisites, factors and goals of cluster formation

As known, in the 21st century the competition across all sectors of world's economy obtained universal and global character. Countries in general gained international competition success not in separate sectors but within a set of sectors, conjoined by horizontal and vertical relations. (Гордеев 200: 198, 199, 202) Let's recall that already famous American economist and a professor of Harvard Business School in his theory of competitive advantages of global economy countries including also the level of companies, becoming the founder of cluster theory in the 80ies of the 20th century, assigned the leading role exactly to clusters. He particularly emphasized that clusters form a critical mass for unusual competitive success in certain fields of business. According to M. Porter clusters "are geographic concentrations of interconnected companies and associated organisations in a particular field linked by commonalities and complementarities". (Попреп 2000: 205 – 208) Meanwhile today it is not doubted that development of several clusters generally determines export profile of the respective country. (Фаминский 2001: 167)

For a cluster, as defined by M. Porter, it is characteristic to focus on more efficient, interrelated sets of successfully competing firms which grow into peculiar competitiveness "diamond" of national economy system and ensure their competition positions in industry-specific, national and global market. (Гурвич 2008: 20) In his last publications M. Porter and M. Kramer also indicated that clusters represent the concentration of companies, their specialized suppliers and service providers including those related to logistics. So not only companies but also educational establishments, trade associations, organisations which lay down standards also apply to clusters. In order to retain their viability public assets are required in their widest sense: schools and universities, clean water, law on *bona fide* competition, quality standards and transparent markets. (Попреп, Креймеп 2011, март: 47)

Reason for clusters to emerge in M. Porter's world of ideas is directly related to determinants of national advantage and is a manifestation of their strategic nature. Accordingly, during the formation of cluster all producing units within it begin to show mutual support to each other. Profit spreads in all directions of the respective interrelations.

Active competition in one sector spreads across other sectors of cluster. (Поптер 1993: 172) Generally put, one can also agree with an opinion (Васильченко и др. 2006: 7, 8) that *preconditions of cluster formation* include:

- several companies of the region working for one ordering customer (sector);
- geographic proximity to markets;
- specialized labour force supply;
- access to specific environmental assets;
- economy based on range of activity;
- low cost of manufacturing operations;
- possible full access to information;
- possibility to attract companies within the region for cooperation.

Besides, the mentioned “geographic proximity” should be viewed rather as a place of accumulation of “critical mass” of social and human assets, scientific, innovative and production potential. Exactly such composition of clusters proves to be more persistent and competitive. (Афанасьев, Мясникова 2005: 76) Moreover, for a successful implementation of cluster approach according to M. Porter’s conception of national “diamond” an exchange of information regarding demands, techniques and technologies among sectors-customers, suppliers and allied industries are required. When such reciprocal exchange takes place and at the same time an active competitiveness is maintained in each individual sector, more favourable conditions for increase of competitiveness are created. (Поптер 1993: 174) In order to support a successful development of clusters included in one’s company, one must know the weak points of logistics, suppliers, and channels of sale, vocational training, market organisation and educational establishments.” (Поптер, Креймер 2011: 48, 50) World’s experience also shows that the key role in formation and increasing competitiveness of clusters is played by quality of fundamentally used resource groups availability of which eventually ensures targeted formation of cluster. It is widely known that within the framework of cluster formation the advantage of geographic concentration of companies is crucial. Of course, similar advantages are based on different *factors* among which we should especially highlight the following (Васильченко и др. 2006: 14; Смирнова, 2009: 70):

- access to the natural and financial resources;
- fundamental materially-technical and production infrastructure;
- access to qualified labour force and human resources;
- scientifically-technological, informational and administrative infrastructure;
- access to intermediary commodities, manufacturing of which is promoted by the cluster;
- geographically restricted effect of multiplier and concentrated demand.

Summarizing the well-known foreign experience of cluster development, we should note that the main *objective* of formation of cluster sets is to increase the life quality of inhabitants in the respective regions (Смирнова 2009: 70; Самойлов 2009: 171):

Types and specific character of cluster formation under conditions of globalization

From the perspective of cluster functioning priorities – summarizing the economic literature – one can conditionally mark out at least six various **cluster types** which are briefly described in **Table 1**. Along with them here presented cluster types are rather relative since according to M. Porter's conception clusters "take various forms depending on their depth and complexity". (Попrep 2000: 207) Without engaging in potential discussions, let's restrict ourselves to remainder that M. Porter even in his early publications particularly emphasized that "the impact of geographic concentration on perfection of production processes and implementation of innovations" is even more important than concentration of companies in prosperous sectors. He also indicated, fairly and directly, at the role of systematic and "diamond"-constituting competitiveness of the regional clusters: "Geographic concentration of the sector acts as a powerful magnet attracting talented people and other production factors to it. ... Processes of cluster formation and exchange among sectors within the cluster also operate more actively in case of geographic concentration. In such case difficulties faced by clusters are solved faster and their demands are satisfied quicker. Thus geographic proximity merges all segmental impacts into a "diamond" of the current system". (Попrep 1993: 177 – 179) Later on M. Porter again emphasized: "Predominance of clusters instead of isolated companies and sectors in economy shows how important it is to understand the nature of competitiveness and the role of geographic location among other competitive advantages." He also reminded that clusters represent concentration of groups of interrelated companies according to the rule of geographic distribution. Forming a critical mass for a competitive success in certain sectors of business, clusters prove to be vividly expressed characteristic of virtually any regional economy, especially in the countries with more progressive economy. (Попrep 2000: 206)

Table 1

Cluster types²

| Cluster type | Brief explanation |
|----------------------------|---|
| Vertical production chains | Rather narrowly defined sectors in which adjacent stages of production process form the core of a cluster (for instance chain “supply – distribution – sale – customer”). Sometimes nets forming around the key companies are included in this category. |
| Industrial* | Large scale merger, discerned against some (main) branch (for instance, “chemical cluster”, “agro-industrial cluster”). They can also be industrial sectors discerned on high level of aggregation or even family of sectors on even higher level of aggregation. |
| Regional (territorial) | Groups of enterprises and organisations within a single or allied industry sectors in the region. |
| Innovative* | Stable territorial-sectoral partnership, joined by innovative programme of implementation of leading production, engineering and management technologies aiming at formation of competitive science-intensive branches. |
| Innovative educational* | Instrument for forming innovative economy, utmost approximation of educational and production objectives within the framework of efficient use of intellectual and scientifically-technological potential of the region. They are based on streams and neighbourhood effects of knowledge being geographically concentrated and having ability to be absorbed by the companies. |
| Border zone* | Development of international cooperation, for instance, in EU, promotes formation of clusters in the border regions among its members. In the respective border zones a synergy effect is achieved that favours the formation of clusters encouraging the development of cooperation of small and medium enterprises. |

*Note: * – all indicated clusters have regional advantage.*

² Prepared by us from: Васильченко Н., Глумскова Е., Секерин В. Формирование промышленных кластеров. // Маркетинг, 2006, №5, с. 4, 5; Куркудинова Е. В. Кластерный подход как технология управления экономическим развитием региона. // Экономические науки, 2010, №10, с. 171, 172; Гавриков Д. А. Формирование приграничных кластеров в Евросоюзе. // БИКИ, 2006, 20 мая, №56, с. 2, 3; Быкова А. А. Исследованте факторов, влияющих на вероятность участия в инновационном кластере. // Экономические науки, 2009, № 11, с. 346; Вахрушева Н.И. Образовательный кластер как фактор инновационного развития региона. // Экономические науки, 2009, №8, с. 386, 387..

In the course of their evolution, clusters, indeed, go beyond the scope of the sector becoming a significant factor of economic development in regions and countries in general. Condition of market relations, level of diversity of business environment, level of competitiveness and also socio-economic policy in governmental level influence the process of formation of **regional clusters**. (Прокофьева и др. 2011: 46, 47) At the same time in the case of regional cluster a relative conditionality of cluster types emerges. In general a particular interest is brought about by the cluster theory in the works of American academic M. Enright who developed theory of regional cluster defining it as follows: “**Regional cluster** is an **industrial cluster** in which firms – the members of cluster – are close to each other in geographic terms”. (Куркудинова 2010 №10: 171)

Therefore for us the ability of clusters not only to efficiently use domestic resources but also the possibility to create a competitive advantage of enterprises which comprise the cluster mainly not in the supranational or national level, but exactly in the **regional level** where the main role is played by the historic prerequisites of regional development, diverse ways of running business, organisation of production and studying, possess essential meaning are of principal importance. (Смирнова 2009, с. 70) In case of Latvia, the main point is that part of the remaining industrial sectors including above mentioned that multiply their industrial potential and have a clear-cut strategic character for majority of regions of our country, at the same time it is with the help of regional clusters one can potentially considerably expand the level of the employment and consequently – welfare – within them. However, it applies not only to the urban but also rural population even to rather depressive Latgale. Here, we are persuaded by the generalization of foreign experience regarding the advantages of successful regional clusters to which a particular attention will be paid further on.

Under conditions of globalization of world's economy in contemporary ever-growing global economy, industrial policy, indeed, has a regional instead of sectoral character. High competitiveness of territory in it holds on high positions of individual clusters which represent a community of companies gathered by geographic principle being closely related sectors which mutually encourage each other towards the development of competitiveness. (Бекеева 2010: 59) In this respect one should also bear in mind that the sense of cluster conception in relation to EU member countries lies in priority implementation of consolidated potential of regions the economic territory of which is the basis for developing the cooperation at European level and solving the problems of regional economic within its boundaries. (Миндлин 2009: 459) Under such conditions – as the world's experience shows – regions having clusters forming within their territories become leaders of economic development and determine the competitiveness of national economy. At the same time regions without clusters certainly arrive at the economically worse condition and in several cases become depressive territories. (Куркудинова 2010: 172)

Along with that foreign research shows that clusters promote considerable increase in production and implementation of innovations. Because the key feature of a cluster is related to its innovative orientation. In contemporary world economy development of clusters is, indeed, considered as an efficient direction of innovative business activity. (Смирнова 2009: 70; Миндлин 2009: 459) Without doubt, under conditions of increasing globalization of world's economy a competitive advantage will go exactly to those regions which will show innovative activity. (Бахрушева 2009: 387) M. Porter especially noted that "in relation to the globalization processes one can observe a growing importance of the new role of clusters in competitive combat under more and more difficult conditions basing on scientific knowledge and dynamic economy." (Поптер 2000: 206)

Particular attention should be paid to the experience of EU countries regarding the formation of clusters of innovative technologies providing the ground for emerging competitive science-intensive branches. All possible activities are being implemented in order to increase the innovation of European industry. With this objective on supranational level several projects regarding the development of cooperation among innovative clusters were implemented. EU considers cluster policy as the key instrument for increasing the competitiveness of sectors and regions, increasing the innovative potential and economic development in the middle-term and long-term perspective. (Клавдиенко 2007: 69; Миндлин 2009: 459)

Distinctive feature of a contemporary cluster in general model of production-cooperation and other types of interaction is not only their concentration in geographical terms and obvious *orientation towards innovation* (Усик 2009: 14) but also indispensable *systematically important presence of universal institution as a central element* which would create obvious competitive advantage in the activation process of innovative regional development. (Бахрушева 2009: 386, 387) In the 21st century in advanced countries' economy, especially in post-industrial countries, university, indeed, must not only generate fresh knowledge, present adequate educational services and deliver culture values, but also be the leader in favouring the economic growth and regional development. (Барбашин и др. 2010: 46)

On the one hand it becomes more and more obvious that the transposition of emphasis of innovative development at the regional level is preconditioned by the fact that it is regional environment which determines the competitiveness of national economy in the global market. These are regions which are able to react quickly in case of external changes and internal conjuncture, quickly adapt at the expense of a larger selection of means of innovative policy. (Бахрушева 2009: 386) On the other hand innovations accumulate in places where one finds a high density of resources for innovative development, including highly skilled scientists, engineers, and technical experts. At the same time it becomes more important that innovative companies are located in proximity to universities and other research institutes that eventually provide synergetic advantage of the regional clusters in question. (Иванов 2004: 26)

In order for regional innovative cluster to become efficient, it must, indeed, have a core with an entire structure forming around it. Universities are frequently acting as such forming element. It gives additional dynamism to clusters. The brightest example of such regional “core” is provided by one of the leading higher education institutions of USA – Massachusetts Institute of Technology. It became one of the main drives of the entire IT industry of USA. (Гурвич 2008: 21) Accordingly, universities now are considered as the support elements of the framework of scientifically-educational cluster. (Носков, Болгова 2010: 290)

Creation of various cluster zones in world's economy

M. Porter marked far-sightedly – yet before the theory of competitive world's economy clusters – about the impression that phenomenon of clusters are found in all countries. He even emphasized: “Examples of high-level competitiveness of clusters are so many that it seems the key feature of all advanced national economies”. (Попреп 1993: 172) Strictly speaking, surely since the 1990ies the governments of the majority of advanced countries in the world started to pursue cluster policy. By that, according to experts' estimations, in the beginning of the 21st century more than 50% of economies of the leading countries were engaged in clusterization. (Афанасьев М., Мясникова 2005: 82; Гавриков 2006: 2) In compliance with other estimates the level of clusterization in those countries was rather high although slightly lower. For instance, according to the information provided by Harvard Business School, more than 32 and 39% of employed in USA and Sweden respectively work under cluster conditions. (Гурвич 2008: 22) Some of the most popular successful clusters in EU countries are presented in Table 2.

It is generally known that the EU countries following USA and Japan arrived at the idea of consolidation of resources of their countries on the basis of elaborated common innovative policy where a vital role is played by cluster development (Васильченко 2006: 3). Illustratively that three world's best clusters out of seven hi-tech clusters which received notable honorary title “21st Century Silicone Valley” operate exactly in Germany. Australia with operating trans-border clusters with Germany, Italy, Switzerland and Hungary and almost 80 regional clusters has gained a pace of development. (Миндлин 2009: 460, 461) Meanwhile in the EU there are approximately ten border zone clusters that are rather successful and they should be emphasized. (Гавриков 2006: 20 мая: 2)

Along with that in case of small countries like Latvia the experience of innovative clusters of some small EU countries (especially Denmark, Finland) is impressive. Denmark has now, indeed, become a recognized world's leader in terms of cluster economy. There are 29 leading clusters currently operating in it. In its turn influenced by theory of M. Porter, cluster approach became exclusively popular in Finland where now the information and telecommunication technology cluster related to hi-tech

employs 1,4 times more people than resources-oriented forest cluster operating on mature market. Yet in the last cluster Finns have one of the highest levels of productivity in the world at the expense of innovation strategies. Additionally, today especially *forest, information and telecommunication clusters* are of utmost importance to Finnish economy ensuring the main volume of export and forming a considerable part of GDP. (Миндлин 2009: 459 – 463)

It is notable that in the beginning of the 21st century Finland is among the leaders of integrated and innovative development and education sector along with such EU countries as Sweden, Ireland and Denmark. At the same time it takes one of the first places in the world regarding the invention activity, only falling behind Japan, USA and Germany. (Клавдиенко 2007: 61, 63.)

Accordingly, in the indices of innovation development presented by European Commission for the year of 2008, Finland takes the third place out of 32 European countries with first and second place taken by Switzerland and Sweden respectively. Quite contrary, Latvia takes one of the last places – the 30th, being ahead of Bulgaria and Turkey. For comparison we should mark that Estonia and Lithuania take the 15th and 27th place respectively. (Ziņojums par Latvijas tautsaimniecības attīstību 2009, jūnijs: 97, 98) It is important that also in the Global Competitiveness Index (GCI) among the global economy countries in 2008 – 2009 Finland took the 6th place out of 131 countries, falling behind USA, Switzerland, Denmark, Sweden and Singapore. On the contrary, Latvia took merely the 54th place falling behind the majority not only newly industrialized economies, but also Estonia and Lithuania taking better places in the index list – 32nd and 44th respectively. (Кудров 2009: 46, 47)

*Table 2***Some of the well-known successful clusters in the EU countries³**

| Country | Sectors and fields of cluster distribution |
|----------------|--|
| Germany | Biotech clusters; vehicular in region of North Rhine-Westphalia state; “21 st Century Silicone Valley” with three hi-tech clusters in Munich, Hamburg and Dresden. |
| Austria | 76 operating regional clusters including industrial, technological, educational, export, combined and service clusters. |
| Great Britain | Regional clusters of biotech companies around Edinburgh, Oxford and South West England. |
| France | 114 operating regional clusters out of which 82 are in the formation stage or having a virtual nature. |
| Italy | Operating regional clusters in industrial districts, mostly in central and north-west parts of the country. Telecommunication cluster. |
| Spain | Operating aerospace cluster. |
| Denmark | Operating 29 leading clusters. |
| Sweden | Biotech cluster. |
| Finland | Operating nine leading clusters, including forest, information and telecommunication, metallurgic, energetic, business-service, healthcare, machine-building, food and construction cluster. |

Potential problems in connection with clusterization process

It is worthwhile to note that M. Porter on the edge of the 21st century marked that “while the phenomenon of clusters in one or another form was recognized and researched in series of works, it cannot be understood if viewed isolated from the wider theory of competition and impact of its position in global economy”. (Попреп

³ Prepared by us from: Миндлин Ю. Б. Зарубежный опыт функционирования кластеров в экономически развитых странах (Дания, Германия, Австрия, Финляндия, Италия, Франция). // Экономические науки, 2009, № 12, с.459 - 463; Гурвич В. Нас ждет кластерный бум. // Loginfo.ru, 2008, №12, с. 20, 21; Прокофьева Т.А., Лопаткин О. М., Зацепин А. С. Кластерный подход к формированию макрологистических платформ на территории федеральных округов России. // Логистика сегодня, 2011, №1, с. 47, 48, 51; Пахомова Н. В., Рихтер К. К. Экономика отраслевых рынков и политика государства: Учебник. - М.: Экономика, 2009, с. 704; Заика А. А. Анализ опыта Финляндии в построении эффективной политики формирования экономических кластеров. // Экономические науки, 2009, № 6, с. 39.

2000: 206) In the face of this fact he initially did not rule out the potential breakdown of even successful innovative clusters and he paid a special attention to these negotiation processes. Generally he indicated that if “one or two cluster sectors playing an important role in innovative processes lose their competitiveness one can observe a disposition towards a collapse of the cluster, even though such result is not inevitable”. (Попреп 1993: 195)

Even though recently lot of efforts have been made to estimate the efficiency of clusters, yet the results are contradictory, but some believe that they are not rather optimistic. *On the one hand* there are very successful examples of innovation clusters. For instance, Silicone Valley in California and many more, part of which related to the EU is represented in **Table 2**. *On the other hand*, it was fairly said that there is no certainty about the possibility to repeat similar success in other regions through efforts of government or other parties concerned. Western experts in field of clusters (D. Wolfe, M. Hertler) believe that clusters emerge under a random convergence of favourable conditions which cannot be foreseen or created artificially. In their research J. Acs and C. Armington come to the conclusion that the principal components of clusters – concentration and specialization – do not lead to creation of new jobs which are frequently noted as an advantage of clusterization. Other researchers conclude that politicians do not understand the way clusters function therefore they cannot elaborate successful cluster programmes. Some researchers (for instance, M. Palazuelos) acknowledge the ability of clusters to promote economic development, however, cluster’s superiority over other types of development cannot be found. (Цветкова 2010: 139)

M. Porter also admitted that setting certain “borders of cluster rather often turn out to be a difficult task requiring a creative process based on understanding of more important relations and reciprocal supplement for various sectors and organizations”. (Попреп 2000: 210) In this respect several recognized German experts in the field of regional development on the ground of difficulty of discrimination and demarcation of clusters even altogether object active cluster policy at the regional level. Besides, for a good reason one indicates at fact that incorrect demarcation of clusters can cause more harm than good. Nevertheless, it is said that even a successful economic development of the region does not always depend on the presence or lack of clusters in the region. Additionally, similar sceptics and even opponents of activation of clusterization processes insist on the necessity of a natural development of regional clusters without interference and initiatives by the governmental authorities. (Тоғанова 2010: 113) Of course, it is hard to agree with a similar clearly liberal approach, virtually depriving the government of participation in vital and dynamically evolving economy, moreover in the case of the small countries with relatively poor natural and financial assets. Yet, we must do a fundamental research regarding the feasible opportunities to prevent rather well-known dangers of cluster policy, arising from corrupted understanding of the content of future cluster and being involved – as often said – in implementation of ineffective and sometimes even harmful models of clusterization. In such case one can

recommend to take into the account also other restrictions, potentially disturbing the efficient use of cluster principles related to the consequences of general state administration system in certain country: starting from managing taxation load and insufficient development of small and medium enterprises, their restricted opportunities to access funds, poor development of such efficient means of work as outsourcing and subcontracting. (Гурвич 2008: 22) It is important that despite of growing topicality and practical importance of formation of efficient cluster frameworks, it is widely admitted that there is no generally accepted methodology for administrating the process of clusterization. Even attribution of individual industry sectors to clusters for the time being depend on experts. (Куркудинова 2010: 170)

Besides, in order to create efficient sets of clusters it is necessary to solve series of other macroeconomic problems, first of all, the following (Бекеева 2010: 59):

- to specify territorial and regional types aiming at forming respective differentiated economic, social and regional policy;
- to describe functional units and prognosticate socioeconomic development of the main geostrategic regions in the country;
- to specify direction of population flows and provide conditions for elaboration of means of control for these flows;
- to perform territorial synchronization of key infrastructure strategies. For instance, in the field of transport policy and energy policy.

In the light of M. Porter's conception, it is generally known that clusters are very vulnerable as well if the companies do not possess global strategies and any obvious activity in other countries. Nevertheless, exactly those sectors of a cluster which have more global scope can avoid failure. (Попреп 1993: 195) One should pay a special attention to the fact that even in the countries with rather successful regional clusterization, for instance in Federal Republic of Germany, there is a problem of coordination and harmonization, more precisely – a systematic approach in practical implementation of the regional industrial clusterization. For instance, in some regions it is not clear to what extent officers of one or another regional authority must consider the cluster component in decision making. Until recently a demarcation line between cluster orientation and other directions of regional policy was not clear. (Торанова 2010: 113)

In the possible development of the border zone clusters that are rather perspective for Latvia one has to take into account some problems arising in the EU. Generally, current direction is not always priority of economic, industrial and innovative policy of the country. There are also hindrances slowing down the development of trust relationships among economic agents in border zone territory. Therefore sometimes one can see *falsa lecio* in legislation of border zone countries hindering the mending of respective foreign economic ties. (Гавриков 2006: 2) Attention should also be paid to the conclusion that due to the integration on the one hand diffusion of administrative innovations in cluster policy is facilitated among the countries. Yet, above mentioned danger of border zone

countries, namely, to duplicate methods and recommendations from all EU countries regarding promotion of companies' development in the same sectors (for instance, biotech) is especially topical for us in Latvia. (Максимова 2008: 99) When elaborating the industrial policy for development of certain types of clusters, one must not simply duplicate the experience of other countries and even regions of own country. It is rightly said that efficient "clusters are built on region-specific features which turn into the source of competitive advantage". (Захаров 2006: 23)

Certain difficulties with implementation of synergetic advantages, especially characteristic to innovative clusters upon forming the cluster system in which the lump is larger than the sum of its parts deserve a special attention when analyzing the potential problems of clusters. Competitive advantages in it become stronger by means of combination of intense competition between participants within a cluster and close cooperation and interaction with external consumers of the cluster. At that, competition among the companies within a cluster allows to exclude the weak participants and provide the incentives towards innovations. Cooperation in its turn is determined by solving complicated tasks, necessity of long-term interaction, and high level of interdependence, mutual support and confidence in members of cluster. (Терешин, Володин 2010: 59, 60, 61; Вишнеvский, Дементьев 2010: 61; Захаров 2006: 19; Афанасьев, Мясникова 2005: 81, 82.)

However, depending on territory the actual interrelations of certain companies within a cluster are far from being independent or stable. Companies working in-line undergo constant changes and any individual company certainly change its role in these interrelations on a regular basis. (См., Кузнецов 2003: 9) On the one hand under conditions of post-industrial economy based on knowledge, the borders between rivals and partners become blurred. Rivals particularly merge in strategic alliances and old partners become competitors thus creating new commodities and entering new markets. (Крымов 2010: 65) Along with that, on the other hand neither an opportunity to work within a cluster nor obvious profit from it guarantees that "formal leaders" (for instance, managers, holders) would continue to cooperate. Sometimes they are concerned to a larger extent about the welfare of personal business in the prejudice of their partners. Competition is, of course, helpful if it increases work efficiency, but whether it is winning or losing – it depends on the balance of profit and loss. Therefore effective ties mean potentially more understanding among the companies involved in the cluster. (Терешин, Володин 2010: 60)

Conclusions and suggestions

- 1) Practical implementation of clusterization conception in the example of advanced countries including those in the EU provide evidence that exactly clusters represent geographic concentration of groups consisting of interrelated companies

and forming a critical mass for competitive success in certain business sectors of regional economy. Even though cluster types examined here are rather conditional and interpenetrating, in the process of their evolution they obviously go beyond the scope of branches, are predominantly regional becoming an important factor of the economic development of the region and countries altogether.

- 2) Geographic concentration of interrelated sectors acts as a powerful magnet attracting highly skilled labour force and other production factors. Besides, development of some clusters certainly defines the profile of a competitive export policy of the respective country and regions with emerging clusters on their territories become the leaders of their economic development and competitiveness.
- 3) Growing globalization processes precondition the strengthening of growing importance of the new role of regional clusters in competitive struggle based on the innovative activity. Distinctive feature of a contemporary cluster within a general model of production-cooperation and other interrelations is not only its geographic concentration and its obvious **innovative orientation** but also a necessary **strategic** presence of central, support element of scientifically-educational framework of cluster in the **form of university institutions** forming evident competitive advantage in the process of activation of innovative regional development.

On the basis of analysis of foreign clusterization paradigm in order to strengthen and efficiently use the remaining industrial enterprises in Latvian regions having strategic nature, determining their employment and population welfare, we **suggest** to creatively adopt instead of simply duplicating the positive experience in successful foreign cluster operation, for instance, in small EU countries. For example, Sweden, Denmark and especially Finland. Similar potential to implement clusterization is, for instance, in **Jelgava, Ventspils, Liepaja, Daugavpils and Rzekne**. Principal prerequisite for cluster formation there is **university infrastructure**, including series of establishments offering vocational training in **technical speciality**, together with the remainder of and developing industrial production. Exactly the last has indisputable strategic nature for majority of regions of our country and with help of the regional clusters it is potentially possible to expand the employment and welfare. And not only for urban, but also for rural population, even in relatively depressive Latgale. Meanwhile the arrangements of possible regional clusterization must be linked to the general **economic, industrial and innovative policy** of the Republic of Latvia within the framework of the required systematic and situative approach. It is also necessary to try win through the typical clusterization problems mentioned here in order to achieve balance in favour of its benefit and advantage.

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EVALUATION OF THE EXISTING AND POTENTIAL LATVIAN CHEESE EXPORT MARKETS

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Abstract

The present paper deals with the evaluation of the Latvian existing and potential cheese export markets. A restructuring of the dairy industry is necessary to maintain and increase the production and export volumes. An evaluation of strategies in the export markets would be crucial in the restructuring process. Albeit being a strategy management tool used for the assessment of the business unit's performance in the various markets, the GE/McKinsey matrix can be successfully applied for the estimation of the given country's industry sector's export performance in export regions or countries.

Keywords: *cheese, Latvia, exports, markets, GE/McKinsey matrix*

Introduction

Cheese traditionally has been an important Latvian export product. While production volumes lately have been stable at about 22 thousand tons, domestic consumption of cheese is flat and reaches 15 thousand tons. Cheese exports stand at about 12 thousand tons. The most important export variety is Cheddar cheese. Nevertheless, the share of Cheddar in total exports lately has declined from about 60% to less than 40% while other varieties of hard cheeses (mainly Edam) with high fat contents are on the increase. (Central Statistical Bureau of Latvia 2010: 1)

Considering the lower producer prices of raw milk in comparison with the old EU member states, Latvian cheeses are mainly exported to EU countries for further processing and use in public catering. (USDA Foreign Agricultural Service 2009b:17)

Latvian cheeses are almost exclusively produced from domestic raw milk. Small volumes of milk for processing are imported from Estonia. At the same time, almost 20% of raw milk produced in Latvia within EU quotas are exported to neighbouring Lithuania. With more concentrated milk processing industry, Lithuania is able to offer

more competitive prices for Latvian raw milk producers. Efficient cheese production allows Lithuania to be an important cheese exporter in global markets. Shortage of raw milk creates necessity to review the cheese production in terms of volumes and structure. An evaluation of strategies in existing and potential export markets is crucial for maintaining the production and export volumes.

The main export markets for Latvian cheese are Russia, Estonia, Lithuania and other EU countries, notably Germany and Italy. In Estonia and Lithuania, the market share of Latvian cheeses stands at 7% and 3%, respectively. The share of Latvian cheeses in the EU-27, USA and Russian markets does not exceed 1%. The share of Russia in total Latvian cheese exports lately has increased from under 20% to almost 40%. The hypothesis of the study proposes to continue the operations in all these markets, as well as to entry the USA market. The objective of the study is to identify the best possible export strategies in every market. (FAO 2010: 45)

Material and method

Latvian export of cheese lately has been stable at about 12 thousand tons. The most important single market is Russia. Exports to Russia makes about 35–40% of total export volume. Total annual export volumes to Russia can reach 4 thousand tons. Export to Lithuania usually stands below 500 tons. Exports to Estonia can exceed 500 tons. Among other EU countries, usually Germany is the most important market, and above 4 thousand tons is exported. Exports to other EU countries are unstable, and volumes vary depending on year. Italy, Holland, Denmark and Finland are important markets. Recently, Romania has emerged as a new market with high level of consumption and traditional shortage of cheese. Export to the USA usually do not exceed 200 tons. (Central Statistical Bureau of Latvia 2010: 4)

The volume of global cheese production is continuously increasing. The major cheese production regions are EU-27 and USA with 47% and 35% respective shares in global output (USDA Foreign Agricultural Service 2009b: 4) Oceania, Brazil and Argentina each has 5% share in the global production. EU-27 and USA also are the largest cheese consumers with 45% and 33% respective shares in global consumption. Russia consumes about 5% of global cheese output. Other important countries in cheese consumption are Argentina, Brazil, Canada and Japan with 4%, 3%, 2% and 2% respective shares in global consumption. Mexico is important cheese importer with about 40% of cheese consumed being imported. Imports are predominantly coming from the USA. Brazil and Argentina are net cheese exporters with Argentina having larger share of exports. Brazilian cheese output mainly is consumed in the domestic market. The producers in the Oceania, Australia and New Zealand use their cheese volumes mainly in exports to Asian Pacific region with Japan and South Korea being the largest customers. Australia and New Zealand export up to 75% of their domestic production.

Japan and South Korea has only about 20% and 30% self sufficiency in cheese. Russia has 40% share of imports in domestic cheese consumption. Ukraine is a net exporter of cheese with Russia as the main destination of exports. (FAO 2010: 46)

The cheese consumption in Russia continuously increases. The annual growth rate of domestic market is 6–7%. Late years has seen the increase in demand for quality products. The market size in terms of value is about US\$ 5 billion (USDA Foreign Agricultural Service 2009d: 4). While domestic production is stagnant, the increase in demand has been met by imports. Imports provide about 40% of supply in Russian market. The volume of German and Ukrainian cheeses in total imports is about 50% altogether. Large volumes are imported from Lithuania, Finland, Holland and Argentina. Customs tariffs are set at the 15% rate of import price and not less than € 0,30 per kg. The customer demand still focuses mainly on well established hard cheeses from Soviet period. (USDA Foreign Agricultural Service 2009d: 12)

The market size of EU-27 in value terms stands at US\$ 48 billion. (USDA Foreign Agricultural Service 2009b: 5) The major producers are Germany, France, Italy and Holland. These countries also are the main exporters. The bulk of export from new EU-27 member states goes for the old member states. Cheese prices in Germany are somewhat higher than in other EU countries and intra-EU export volumes to Germany are the largest. The production grows continuously with production capacities increasing correspondingly. Cheese consumption in France is stagnant and retail prices are rather high. Italian cheese consumption slightly increases. The share of imports in Italian domestic consumption is rather high and large volumes are imported from Germany. The increase in German cheese consumption is not marked and happens mainly due to the changes in customer demand which focuses strongly on low fat varieties. Cheese consumption in Holland is stable and domestic production is constrained by production running at maximum capacities. (The Dutch Dairy Association 2010: 14)

The size of Japanese cheese market fluctuates upon the economic situation, particularly, on world market prices and exchange rate of the yen. Generally, market is growing annually by 2–5%. The market size in terms of value is more than US\$ 5 billion. (USDA Foreign Agricultural Service 2009c: 3) Domestic supply covers only about 20% of market demand. Japan provides different tariff treatment for cheeses based in part on use. Natural cheeses for direct consumption (the EU is particularly strong in this category) have average tariffs of between 20–30%. Processed cheeses have a higher 40% tariff. Separately, natural cheeses imported under the zero duty tariff rate quota (TRQ) must be blended with domestic cheese in the production of processed cheese. Australia and New Zealand have been especially competitive in this import category. The creation of an enhanced cheese subsidy program for the 2011 could have multiple effects on the Japanese by filling the idle capacities of cheese plants and boosting domestic cheese output by 15%. This might keep domestic cheese price competitive with imports.

The annual growth of USA cheese market does not exceed 1%. Market size in value terms stands at US\$ 35 billion. While being a principal cheese producing country, USA is a net cheese importer. Consumption structure is dominated by Cheddar type cheeses with about 40% share in total consumption. Mozzarella and other Italian cheese varieties altogether have 40% share, too. Other cheeses have 20% share. Supermarket chains purchase only quality cheeses. Switzerland and Finland are the main suppliers of Gruyere cheese which is imported in small-sized packagings. Retail prices for Gruyere cheese are high. Customs tariffs for cheeses are set at 10% level. New Zealand and Canada are the main cheese exporters to the USA with 39% and 21% respective shares in total imports. Large volumes are imported from Mexico and Australia. Import from EU countries is not large. Italian and French cheeses have only 6% share in total imports. (USDA Economics, Statistics, and Market Information System 2010: 12)

The capacity of Mexican cheese market grows annually at 1–3% rate, mainly due to stronger demand from low and middle income consumers of fresh cheese and low fat varieties. Market size in value terms stands at US\$ 2 billion. (USDA Foreign Agricultural Service 2009e: 3) More cheese demand is being met by domestically-produced fresh cheeses as cheese manufacturers become more efficient in producing fresh cheeses for the domestic market. In addition, consumer preferences are more adapted to domestically-produced cheeses. As the consumption among higher income consumers is not increasing, the share of imports in domestic consumption is declining and does not exceed 25%. Customs tariffs for Cheddar varieties and unripened cheeses are set at 25% level. Tariffs for other hard and semi-hard cheeses are set at 20–40% level.

Korean cheese market size in value terms stands at US\$ 400 billion. (USDA Foreign Agricultural Service 2009f: 3) Imports provide about 65% of domestic market demand. The annual growth of the market exceeds 10%. Customs tariffs are set at the 36% level. USA provides about 15% of total imports. USA cheeses have advantages in Korean market within the framework of bilateral trade agreement between both countries. Fresh cheeses prevail in import structure, as these cheeses have 75% share in total consumption. Imports of matured cheeses provide more than 50% of domestic consumption.

The market size of Canadian market in value terms stands at US\$ 2,5 billion. (USDA Foreign Agricultural Service 2009a: 4) Import volumes are small and provide only about 7% of total supply. Cheese imports are restricted by quotas and very high import duties at 245,5%. Nevertheless, processors can import cheese for further processing within the framework of cheese export program. Imports for further processing constitute about 13% of total cheese imports. In general, imports exceed the commercial import quota. EU countries are allocated 66% of total quota volume. Within the quota, customs tariffs are low at 0,02–0,03 US\$/kg. Market grows annually at about 3% rate. The largest volumes are imported from USA, France and Italy.

Lithuania is principal cheese exporter. Import is small and do not exceed 5% of total domestic consumption. Market size in value terms stands at US\$ 140 million. (FAO 2010: 47)

Estonian cheese market is stable both in terms of volume and consumption structure. The annual growth rate of the market is 1–2%. Market size in value terms stands at US\$ 40 million. The largest volumes are imported from Finland and Lithuania. Import is essential and it provide 50% of total domestic consumption. (FAO 2010: 47)

GE/McKinsey matrix is a strategic management tool developed in the 1970's by McKinsey & Company in consulting engagements with General Electric. The matrix itself is a nine-cell portfolio matrix designed for screening large product portfolio performance of strategic business units. (McKinsey & Company 2010: 7) The matrix portrays strategic business units on a grid of the industry sector attractiveness and position of the strategic business unit in the industry sector. Industry attractiveness and business unit strength are calculated by first identifying criteria for each, assigning the value of each parameter in the criteria, and multiplying that value by a weighting factor. Industry attractiveness is determined by such factors as market growth rate, market size, customer demand, profitability, competition, macro-environmental factors. Factors that determine business strength include market share, growth in market share, distribution, brand awareness, quality, and product adaptation. The result is a quantitative measure of industry sector's attractiveness and strategic business unit's strength relative to competitors within the industry sector. Each business unit is mapped as a circle plotted on the matrix. Market size is represented by the size of the circle. Market share is shown by using the circle as a pie chart. The expected future position of the circle is shown by the arrow.

GE/McKinsey matrix has proved to be an excellent framework for portfolio decisions in selected agroindustrial sectors. Export markets or regions can be investigated for products where the country has high competitiveness and favorable export markets can be chosen.

To evaluate the Latvian cheese exports GE/McKinsey matrix is modified as follows: horizontal axis is used to indicate the position in selected markets and vertical axis is used to indicate the attractiveness of the region / market.

Results

At first, the competitive advantages of Latvian products in major export markets are assessed. The quantitative assessment of the competitive advantages is provided in table 1. The main export markets for Latvian cheeses are EU, Russia, Lithuania and Estonia. The entry in Canadian market is restricted by quotas and high out of quota customs tariffs. Mexican cheese market is unstable and consumption is focused on lower fat varieties. Moreover, USA has major share of food imports by Canada and Mexico as a trading partner within the NAFTA free trade agreement framework. Oceania exporters have strong positions in both Japanese and Korean markets due to

relatively low prices, larger volumes and long established partnerships. The share of Latvian cheeses in Estonian market is rather big. The share in Lithuanian, Russian, USA and other EU country markets is small. Latvian cheeses have not been exported to Japan, Korea, Canada and Mexico. The market share of Latvian cheeses in the USA market is stable, while the share in Estonian, Lithuanian and other EU country markets slightly increases. The share in Russian market increases essentially. The knowledge of the USA market is insufficient. The knowledge of the EU country markets is rather high. The knowledge of Russian, Estonian and Lithuanian markets is high. Latvian products are not adapted for USA, Canadian, Japanese, Korean, Mexican markets. Latvian cheeses have good product awareness in Lithuanian and other EU country markets. Customer awareness is high in Estonia and Russia. The price level of Latvian cheeses is too high for the Lithuanian market. As for the other countries, price level is acceptable. The quality of Latvian cheeses is considered high in Russian market. The quality is low for the requirements of the USA market. As for the other countries, quality is sufficient. The distribution of Latvian products in Lithuania and Estonia is well established. The situation in Russian market is satisfactory. Exports to other EU country markets are provided by selected importers. The distribution in the USA market is focused mainly on districts with high share of immigrants from CIS states in population. The quality and spectrum of marketing activities in Russian, Lithuanian and Estonian markets are satisfactory. Marketing in the USA and other EU countries is insufficient. The production costs of Latvian cheeses are adequate for exports to Russia. As for other countries, production costs are rather high.

Table 1

**The evaluation of the parameters for the competitiveness
of the Latvian cheeses in selected export markets**

| Competitive advantages | Weighting | RU | EE | EU | LT | US |
|-------------------------------|------------------|-----------|-----------|-----------|-----------|-----------|
| Market share | 13% | 1 | 6 | 2 | 2 | 1 |
| Market share growth | 13% | 7 | 2 | 2 | 2 | 1 |
| Market knowledge | 13% | 8 | 8 | 6 | 8 | 3 |
| Product adaptation | 13% | 8 | 8 | 7 | 7 | 3 |
| Price level | 13% | 7 | 7 | 7 | 3 | 8 |
| Quality | 13% | 8 | 6 | 6 | 5 | 4 |
| Financial benefits | 8% | 3 | 3 | 5 | 3 | 3 |
| Sales and promotion | 8% | 4 | 7 | 2 | 7 | 2 |
| Marketing | 4% | 5 | 4 | 2 | 4 | 2 |
| Production costs | 4% | 5 | 3 | 4 | 2 | 3 |
| Total | 100% | 141 | 138 | 110 | 107 | 75 |
| Mapping position | | 5,9 | 5,8 | 4,6 | 4,5 | 3,1 |

Source: own calculation

The Estonian cheese market is very small if compared to other markets. The size of Lithuanian market is somewhat bigger. The size of other country markets is very large.

The USA market has very low annual growth rate. Estonian and other EU country markets grow only slightly. The growth in the Lithuanian market is higher. Russian market grows essentially. The competition level in USA and Lithuanian market is high. In Estonian market competition is somewhat lower. In other EU country markets competition is moderate. The competition in Russian market is the lowest. Cheese markets of EU countries are fully accessible. Relatively low customs tariffs for cheeses in the USA do not restrict the market accessibility. Customs tariffs in Russia are higher. Moreover, other market protection measures are sometimes applied. Price trends in Lithuanian, Estonian and Russian markets on the average are acceptable. The trends in the EU country markets are favorable. Price movement does not affect USA, Canadian and Japanese markets. USA market is the most favorable in terms of possible returns. Markets in Estonia and other EU countries bring moderate profits. Lithuanian and Russian markets have the lowest returns. Consumer attitude towards Latvian products in Lithuania and Estonia is positive. In other EU countries, attitude is rather positive. Russian consumer attitude varies upon the degree of relations between two countries. In the USA, imported hard cheeses are valued when their countries of origin are France, Italy, Switzerland or Holland. Albeit not at the same degree, German and Scandinavian cheeses are appreciated. Products from Eastern Europe are rated somewhat lower considering quality concerns. In Russia, consumers do not have many opportunities for cheese substitution with other products. In other markets, more substitution opportunities exist. The USA has the most developed infrastructure. In Lithuania and Estonia, infrastructure is sufficiently developed. In Russia, infrastructure is unsatisfactory. Fluctuations of demand can create problems only in the EU countries if export volumes to third countries are lower and supply pressure in the internal market lowers the demand for imports from new member states.

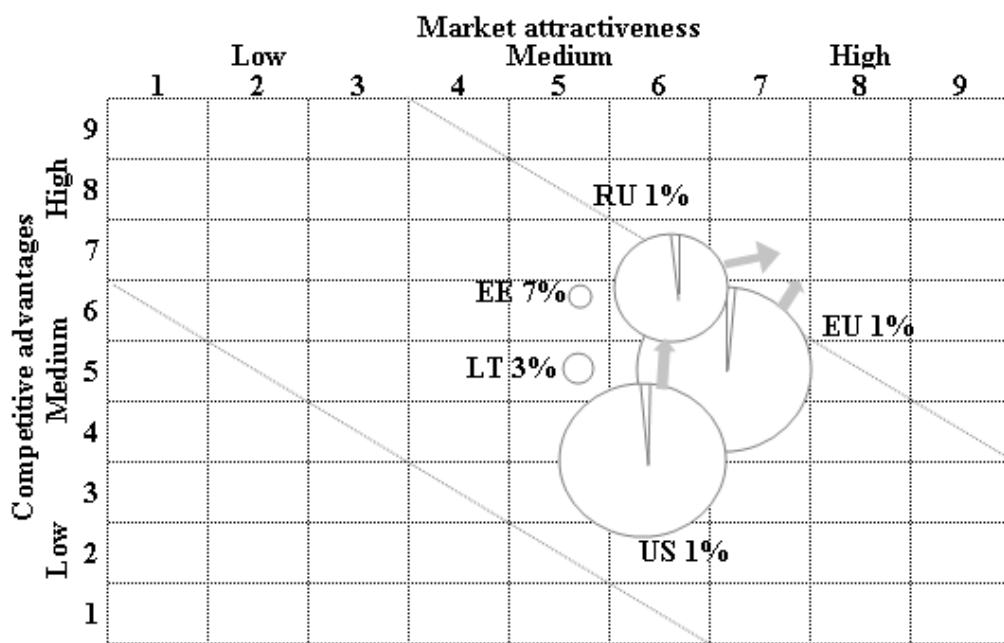
Table 2

**The evaluation of the parameters for the attractiveness
of the selected export markets for Latvian cheeses**

| Market attractiveness | Weighting | EU | RU | US | LT | EE |
|----------------------------|-----------|-----|-----|-----|-----|-----|
| Market growth | 14% | 2 | 8 | 1 | 3 | 2 |
| Competition | 14% | 5 | 7 | 2 | 2 | 3 |
| Market size | 14% | 9 | 8 | 8 | 4 | 2 |
| Market protection | 14% | 9 | 3 | 7 | 9 | 9 |
| Price trends | 9% | 6 | 5 | 8 | 4 | 6 |
| Possible returns | 9% | 6 | 4 | 7 | 4 | 5 |
| Consumer attitude | 9% | 7 | 4 | 5 | 8 | 8 |
| Substitution opportunities | 9% | 5 | 6 | 4 | 3 | 3 |
| Infrastructure | 5% | 7 | 3 | 8 | 6 | 6 |
| Demand fluctuations | 5% | 5 | 6 | 8 | 6 | 6 |
| Total | 100% | 135 | 125 | 118 | 104 | 104 |
| Mapping position | | 6,1 | 5,7 | 5,4 | 4,7 | 4,7 |

Source: own calculation

After the calculation of the parameter values for the competitive advantages and market attractiveness, circles with respective market sizes and market shares are mapped on the McKinsey matrix grid shown in Figure 1.



Source: own calculation

Figure 1. GE/McKinsey matrix for main Latvian cheese export markets

Conclusions

The positions of the all five major markets on the matrix grid are located in the medium segment. This indicates the opportunity to maintain or strengthen the presence in the market.

EU-27 is the largest single global market with the highest attractiveness. The competitiveness of the Latvian products would be improved by consolidation of processors offering similar products. Considering the size of the market and market growth rate, the proposed strategy in this market encloses the increase both in the export volumes and market share. The market attractiveness will remain the same.

USA is the second most important market. Market attractiveness lags the ratios of the EU and Russia. The competitiveness of Latvian products is low due to several reasons. In the less expensive product segment domestic low fat varieties dominate. In turn, the up-market consumers prefer well-known traditional Western European brands. Latvian products would be competitive in the large and attractive public catering sector where the bulk of cheeses are consumed in pizzas and other recipes. The

proposed strategy in this market would be penetrating the public catering sector by offering sufficient volumes of semi-hard cheeses. At the same time, up-market segment would be penetrated by hard cheeses resembling Western European varieties.

Russia is the most important single market with the attractiveness only slightly lower than EU-27 has. Latvian products have a good competitiveness in this market. Considering the size of the market, market growth rate and share of the Latvian products, the proposed strategy in this market enclose the maintaining and increasing the share of the traditional products, as well as the increase in the supply of more expensive up-market products that compete with the hard cheeses from Western Europe. The market will become even more attractive, and Latvian products should have increased competitiveness in the market.

The competitiveness of Latvian products in small markets of neighboring Estonia and Lithuania with the unchanging attractiveness would not allow either the increase in product volumes or product diversification. The proposed strategy in these markets would be the maintaining of the existing positions for the same product range.

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IMPORTANCE OF AGE AND SEX TO INTERACTION BETWEEN LEADER AND FOLLOWERS

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Abstract

The authors of the present study aim at verifying the hypothesis that the age and sex of followers are important to interaction between the leader and followers and also to the successful functioning of an organization. It needs to be emphasized that the authors uphold the principle that leadership is not a set of characteristics of an individual subject, but a process that occurs only during the interaction between the leader and follower. Therefore, the authors purposefully dissociate from the analysis of leader's characteristics, skills and differences between a leader and manager. The authors also dissociate from the influence of wide spectrum of external and internal circumstances on the activity of employees of the organization, and focus only on things that may affect the relations of the leader and followers.

The research of the interaction between the leader and followers performed among the higher medical staff of stationary departments of Kaunas County Hospital and its branch Kaunas Psychiatric Hospital showed some gender differences in the process of creation of leadership and some influence of a follower's age on the quality of interchange with the leader. The analysis of interaction between the leader and followers allowed the authors make final generalization.

Keywords: *leadership, leaders, followers, the dyadic relation, an inside group, an outside group, the process of creation of leadership, mature partnership.*

Introduction

According to the system theory, activity of each segment of an organization influences activity of all other segments of an organization in some degree (Bertalanffy 1951). Content of activity of any organization is filled with people working inside the organization, who are interacting due official position and informal relationship, thus

all together are functioning as an integral system. (Ciegis 2009) Anyone who has ever worked in an organization has experienced that some of its members are more active and make greater personal contributions to an organization, while other members are more passive, perform only formal job activity and make less or even minimal contribution. The leaders are also in particular touch with the employees who usually perform more and have colder relations are with others. Thus, two different groups of employees are being formed in the organization despite the fact that it is acting as an integrated system. In view of the fact that the leader is an initiator of relationship with followers and creates and maintains communications, essentially harmonious interaction between the leader and every employee becomes important for the successful functioning of an organization. (Saparnis 2009; Tijunaitiene 2009) Both the leaders and followers participate in the process of leadership. (Burns 1978; Hollander 1992) Talking over leaders and followers, the focus should be given to both equally – both need to be understood in relationship to each other (Hollander 1992) and collectively. (Burns 1978) Consequently, in researching the phenomenon of leadership in any organization, the research object shouldn't be a leader himself/herself but the quality of interaction between the leader and every follower being under his/her subordination. Following the principle of interaction, the object of the research of leadership should be every employee of the organization.

It is necessary to emphasize that we keep to the principle that leadership is not a set of characteristics of separate subjects, but the process that occurs only during the interaction between the leader and a follower. In the authors' opinion, a person can actualize himself as a leader only in a particular relation with followers, therefore only the aspects of this relation should be researched in order to evaluate the quality of leadership process. According to Hollander, in discussing leaders and followers, the focus should be put on both equally – both need to be understood in relationship to each other (Hollander 1992). That is why we purposefully dissociate from the analysis of leader's characteristics, skills and differences between the leader and manager. We also stand apart from the influence of a wide spectrum of external and internal circumstances on the activity of employees of an organization, and focus only on the factors that may affect the relations of a leader and followers. The Leader-Member Exchange Theory (LMX) allows it and considers the leadership phenomenon as the process which is focused on the interaction between the leader and every follower (Graen 2006). This theory describes and studies the process how two different above-mentioned groups are formed, analyzes the reasons of the phenomenon and proposes possible decisions.

In order to better understand the oneness of the LMX theory in the explanation of the leadership process as the interaction of the leader and a follower, first of all, a short review of theories describing the leadership phenomenon from the point of view of the leader, follower or context will be presented and then the look at the LMX theory itself will be given.

The **objective** of this article is to present basic problems of leadership as reciprocity of a leader and followers.

The **aim** of the study is to define and analyze an interaction between a leader and followers.

The main **tasks** are to:

- analyse the creation of leadership according to the theory of leader-member exchange;
- research leadership as the interaction between a leader and followers;
- verify that the age and sex of followers are important to interaction between the leader and followers.

The **research methods** to solve the scientific problem are – scientific literature review, the analysis of analytical and empirical studies and the synthesis of fragmentary knowledge on the subject, the questionnaire based on the LMX theory.

Creation of Leadership According to the Theory of Leader-Member Exchange

All the theories mentioned henceforth emphasize the characteristics of leaders, followers, context or their combination and the leadership is considered as what the leaders provide to their followers by treating them as a group and applying some leadership style. However all theories analyze specific relationship between the leader and every subordinate. The only leadership theory addressing the differences that may exist between the leader and every follower as well as evaluating the leadership from the point of view of relationship is the **Leader-Member Exchange** (LMX) theory. This theory considers the subordinates' influence over the leader with the same importance as the leaders' influence over subordinate. The LMX theory emphasizes that efficient leadership depends on efficient interchange between a leader and a member. The theory acknowledges that personal characteristics and other features influence the way how subordinates work with leader or leader works with subordinates (Dansereau 1975), but brings to the fore the importance of communications in the leadership. According to the theory, an efficient leadership appears when communication between the leaders and subordinates is based on mutual trust, respect and commitment. The communication in this case is a tool due to which leaders and subordinates create, uphold and save useful interchange. Because the study follows the point of view to process of leadership presented by this theory and is based on methodology of leader-member interchange created by this theory, the theory needs to be discussed more thoroughly.

As it has been mentioned in the preface, the theory of leader-member exchange (LMX) defines the leadership as the process which is focused on the interaction of leaders and followers. The LMX theory considers a dyadic relation between leaders

and followers, being the most important thing of the process. (Dansereau 1975) According to the theory, leaders are getting in a vertical dyad touch with every follower therefore all structural organizational units could be evaluated as a set of such vertical dyads. In the evaluation of such dyad relationship the theory singles out two types: based on the roles of expanded and bargained positions (additional roles) that are named inside a group, and based on formal labour contract (determined roles), that are named outside the group. LMX theory states that it is very important to acknowledge whether the organization includes such inside and outside groups. In a structural unit of an organization subordinates become a part of inside or outside group according to the fact how successfully they are working together with the leader and how successfully the leader works together with them. The subordinates who are interested in negotiations with the leader regarding the matters they would like to do for the group can become a part of an outside group. Such negotiations include interchange where subordinates perform the activity outwards formal work description and the leader, in his turn, strives more on the behalf of these subordinates. When subordinates are not interested in new or other work commitments they become a part of an inside group, get along worse with the leader therefore they usually just come to work, perform what is required and go home. It is important to emphasize that membership in one or another group is based not only on the leader's influence but also on how the subordinates are expanding the commitments of their roles in communication with the leader. (Graen 1976: 2006)

In order to research the quality of leader-member interchange, the questionnaire of 7 questions convenient enough to be used was created which measures three aspects of relationship of the leader and members that are components of solid partnership: respect, trust and commitment. (Graen and Uhl-Bien 1995) Researching the efficiency of an organization according to the LMX theory it was stated that very good leader-member interchange decreases the turnover of employees, work evaluations become better, employees have raises in position more often, commitments to organization become higher, work tasks are more desirable, better attitude towards work, leader pays more attention and gives more support to employees, activity increases and career progress becomes faster in 25 years. (Graen and Uhl-Bien, 1995; Salciuviene, 2009) No wonder such results encouraged creation of the model where interchange between the leaders and subordinates are used in creation of leadership. (Graen and Uhl-Bien 1991)

The LMX theory presents a model for creation of leadership where it proposes leaders to search for the methods of creation of mutual trust and respect with all subordinates, thus changing the whole work unit into an inside group. According to the LMX theory, leadership can be created in three stages: 1) strangers; 2) acquaintances and 3) mature partnership. In the first stage of "strangers", interaction in a leader-subordinate dyad is usually limited by the rules and there is trust in contractual relationship. Leaders and subordinates communicate according to determined organizational roles. Their

interchange is not qualitative, they essentially correspond the relationship with the members of an outside group. The subordinate obeys a formal leader having higher position in hierarchy in order to get economic interest that is under the leader's control. At the stage of "strangers" the motives of a subordinate are directed towards personal interest not towards group's welfare. (Graen and Uhl-Bien 1995) The second stage – "acquaintances", starts when the leader or subordinate proposes more perfect career oriented interchange that is related with more often exchange of resources and personal or work related information. For both, the leader and the subordinate this period is tentative in order to evaluate if the subordinate wants to take more roles and commitments and if the leader is ready to challenge the subordinates. During this period the dyads digress from interaction that is limited only to work descriptions and determined roles, and approach the new methods of communication. According to the LMX theory, it is true to say that the quality of the interchange is increasing. Successful dyads occurred in the stage when acquaintances start developing more mutual trust and respect. During these interchanges also less attention is paid to personal interests and more attention to group's objectives and strivings. The third stage, "mature partnership", is distinguished by a very qualitative leader-member interchange that essentially corresponds the relationship with the members of an inside group. Having reached this stage of relationship, people trust each other very much, hold in respect and feel mutual commitment. They verified their relationship and assured they can trust each other. In a mature partnership big mutuality appears between the leaders and subordinates and they are influencing each other. Besides, in the third stage the leader and members can trust each other when they are expecting services or particular help. For example, leaders can expect their subordinates will perform additional tasks and subordinates can expect support and encouragement from the leaders. The essence – the leaders and subordinates are interrelated productively and these relationships surpass the traditional hierarchy determined work relationship. They have created a particularly efficient method of communication providing them and the organization with positive results.

The LMX theory prompts leaders to create special relationship with every subordinate, similar to the relationship of an inside group, in order to avoid inequality and negative consequences that could be a cause of dependence on an outside group. Leaders have to propose every subordinate the possibility to take new roles and commitments and not allow their deliberate or involuntary unfair opinion to influence whom to invite to an inside group (e.g., to avoid unfairness due race, sex, ethnos, religion or age). The principles formulated by the LMX theory remind the leaders they have to be fair and equal towards every subordinate and to cherish a very qualitative interchange.

It should be noticed, that recent studies based on the LMX theory present rather complicated view of reciprocity of manager-subordinate relationships. It was found that such factors of behaviour as role conflict, role ambiguity and intrinsic task satisfaction moderate the relationship between leader-member exchange and

subordinate performance. The lower role conflict and the higher role ambiguity and intrinsic task – the higher is the subordinate's performance (Kenneth, 2002). At present time, the LMX theory assesses three components of reciprocal behaviour: immediacy, equivalence and an interest motive. It was found that immediacy, equivalence and a self-interest motive are negatively associated while mutual motive is positively associated with relationship quality, i.e., the higher the quality of leader-member relationship, the lower the importance of immediacy, equivalence and self-interest of their behaviour for them. It is important, that by the evaluation of all complexes of these three factors and an interest motive, the LMX theory marked negative reciprocity in manager-subordinate relationships, characterized by the exchange of injuries, self-interest, low mutual and other-interest motive, and low equivalence and immediacy in leader-member behaviour. According to the LMX theory, even low quality of a leader-member exchange responds to positive reciprocity.

From the practical point of view, it is very important that the ideas presented by the LMX theory can be applied both in different organizations (business, social organizations, public offices and government institutions) and at different levels of management of an organization. (Ciarniene 2007)

Research of the Influence of the Followers' Age and Sex on the Interaction between the Leader and Followers

The LMX theory we are appealing to, prompts leaders to create the relationships of mature partnership with every subordinate and to avoid any inequity. The author of the study proposes a hypothesis that the quality of interaction between the leader and follower and the leadership creation process are also influenced by the age and sex of subordinates and, therefore, while creating the leadership that will be based on mature partnership these aspects should be taken into account.

The subject selected for the study is one of the members of dyad leader-follower and it is the follower. In the second group of the members of dyad leader-follower, leaders, an absolute number of leaders (managers) were evaluated as well as their repartition according their sex which is important to the study.

The study used a questionnaire of 7 questions based on the LMX theory (Graen, 1995), that allows for accurate evaluation of quality of interchange between the leader and followers which is based on three aspects of the leader-member interaction: respect, trust and commitments. The questionnaire (LMX7) allowed evaluating how much leader and followers respect abilities of each other, feel increasing mutual trust and strong commitment to each other. The following questions or statements were given: 1) Do you know how much your manager is satisfied with your activity? 2) Does your manager understand the problems of your work? 3) Does your manager understand the

possibilities of your work? 4) What is the probability your manager would use the power of his/her position in order to help solving your work problems? 5) What is the probability your manager would stand bond from you taking the responsibility despite his/her power of his/her position? 6) I trust my manager enough to maintain and authorize his/her decision when he/she is absent to do this. 7) How would you describe your work relationship with your manager? Each question/statement was presented with evaluation scale from 1 (absolutely negative answer/evaluation) to 5 (very positive answer/evaluation). Reliability of an inner compatibility of the scale is satisfactory (Cronbach $\alpha = 0,87$). Respondents were also asked to indicate their sex, age and work experience in the work place the research was performed.

The research was performed among the higher medical staff of stationary departments of Kaunas County Hospital and its branch Kaunas Psychiatry Hospital. A total of 25 organizational units were studied.

The focus group includes 105 doctors: 75 women (71,4 percent of the group) and 30 men (28,6 per cent of the group). The questionnaires were filled out (by the group under the study) by 83 respondents (79 per cent of the focus group) among them 48 women (64 per cent of all women of the group), 27 men (90 per cent of all men of the group) and 8 persons who hadn't specified their sex. 25 persons stayed in not investigated group of leader-follower dyad (doctors – heads of departments among them 14 women (56 per cent of all group of managers) and 11 men (44 percent of all group of managers). The filled-out questionnaires were analyzed in two separate stages and then the overall analysis of research conclusions was performed.

The first stage of the analysis was performed with a view to identify the quality level of interchange between the leader and follower (non qualitative, average or high quality interchange), corresponding to one stage of leadership creation in all groups (strangers, acquaintances or partnership) as well as to evaluate spread of these indicators separately among men and women and spread according to age groups. To this end, the overall sum of points was calculated in the questionnaires. The least possible sum of points of all 7 answers/evaluations is 7 points, the highest – 35. (Graen and M. Uhl-Bien, 1995: 219–247) In order to subsume the received total sum of points to one of the three stages of leadership creation, the total possible sum was brought into three equal levels of evaluation: the sum equal to 1–11,6 points (non qualitative interchange); 11,7–23,3 (average quality) and 23,4–35 (high quality). Non qualitative interchange was evaluated as a leader-follower dyad being at the first stage of leadership creation or “strangers”, average quality means the second stage “acquaintances”, and high quality is the third stage or “partnership”.

The results received at the first stage are: the sum of points of one respondent corresponds to non qualitative interchange (1,2 per cent of all focus group), the sum of 25 respondents – average quality (30,1 per cent), and the sum of 57 respondents – high quality (68,7 per cent). According to sex, respondents in every stage spread as follows: Stage I – 1 woman

(2,1 per cent of all women in the group investigated), Stage II – 17 women (35,4 per cent of the women investigated) and 6 men (22,2 per cent of all men), Stage III – 30 women (62,5 per cent) and 21 men (77,8 per cent).

Analyzing respondents according to age groups in every stage of leadership creation, the respondents were grouped according to the age decades: aged 21–30 years were assigned to Decade III, aged 31–40 – Decade IV, aged 41–50 – Decade V, aged 51–60 – Decade VI, aged 61–70 – Decade VII, and aged 71–80 – Decade VIII. Only one respondent was in stage I therefore it was impossible to determine the spread. 22 respondents indicated their age in Stage II, and 52 in Stage III. To be more evident, Figure 1 reflects the spread of age groups in per cents between the respondents in Stages II and III.

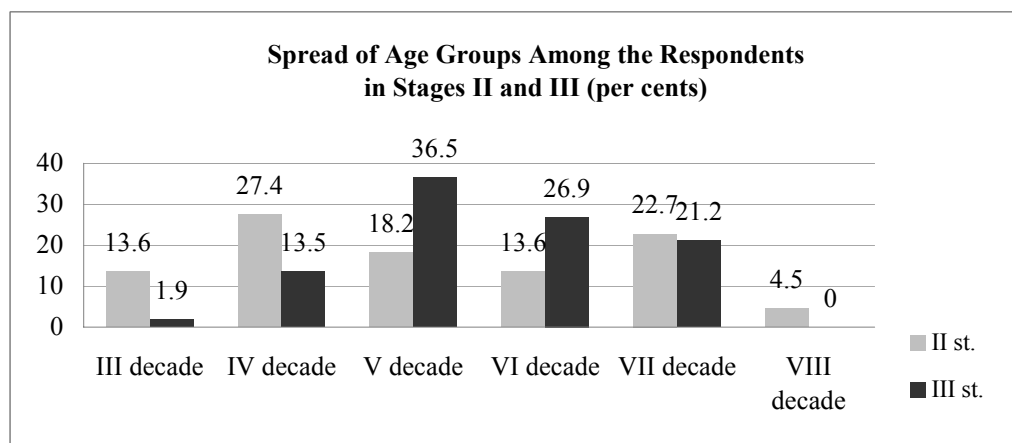


Figure 1. Spread of Age Groups According the Age Decades among the Respondents in Stages (st.) II and III (per cent)

Generalization of the results of the first research stage would be as follows:

- 1) Not less than two-thirds of respondents in the focus group (68,7 per cent) have high quality interchange with their leaders and are at Stage III of leadership creation or “partnership”. Almost one-third of respondents has average quality interchange with the leader and is at Stage II of leadership creation or “acquaintances”.
- 2) At Stage III or “partnership” there are 3,5 times more men from the focus group than at stage II or “acquaintances”. No man had non qualitative interchange. Accordingly, there are 1,7 times more women at Stage III than at Stage II or “acquaintances”.
- 3) At Stage II among all respondents participating and indicating their sex there are 3,2 times more women than men. At Stage III there are 1,4 times

more women than men, and in absolute figures the number of representatives of both sexes is almost equal.

- 4) Taken all respondents representing Stage II who indicated their age and overall percentage of all respondents in this stage exceeded 25 per cent, not less than the quarter are in Decade IV. Accordingly, taken all respondents at Stage III (“partnership”) there are already two age groups with at least a quarter of all respondents: 36,5 per cent are in Decade V (age group 41–50 years) and 26,9 per cent in Decade VI (age group 51–60 years). The only respondent of all assigned to Stage III is in Decade III (age group 21–30 years).

The second stage of evaluation of results was intended to determine the importance of separate aspects (respect, trust and commitment) to the quality of leader-member interchange. To that end every question was evaluated by a respondent in points: 1 – very low evaluation; 2 – low; 3 – average; 4 – high; 5 – very high (Graen and Uhl-Bien 1995: 219–247). In order to determine the questions/statements most affecting common indices of evaluation, the percentage of spread of evaluation given to every question/statement was evaluated in the measure of all group investigated as well as comprehensive evaluation of the percentage of the totalled very low and low evaluations and totalled high and very high evaluations of all questions/statements in the measure of all focus group. Finally, evaluations given to every question/statement and expressed as a percentage were assessed in groups of women and men, in order to research the influence of sex on separate aspects of leader-member interchange.

The comprehensive results of low and high evaluations in per cents were received in measure of the whole group investigated. The lowest evaluations were given to the following questions (sequence from the lowest): No.5 (16,8 per cent), No.2 (14,5 per cent) and No.1 (14,4 per cent). The least number of high evaluations was assigned to the same questions (sequence from the lowest): No.5 (54,3 per cent), No.1 (54,3 per cent) and No.2 (57,8 per cent). These questions can be regarded as the most problematic to the group investigated. The least number of low evaluations was given to the following questions (sequence from the lowest): No.7 (3,6 per cent), No.6 (3,6 per cent) and No.3 (4,8 per cent). The highest scores were assigned to the same questions (sequence from the highest): No.7 (75,9 per cent), No.3 (73,5 per cent) and No.6 (71,1 per cent). These questions can be considered as the most favourable to the group investigated. As regards the questions with the lowest or highest evaluations, question 4 takes the medium position (accordingly 10.8 per cent of low evaluations and 67,5 per cent of high ones) and can be evaluated as little or average problematic. (Figures 2–4)

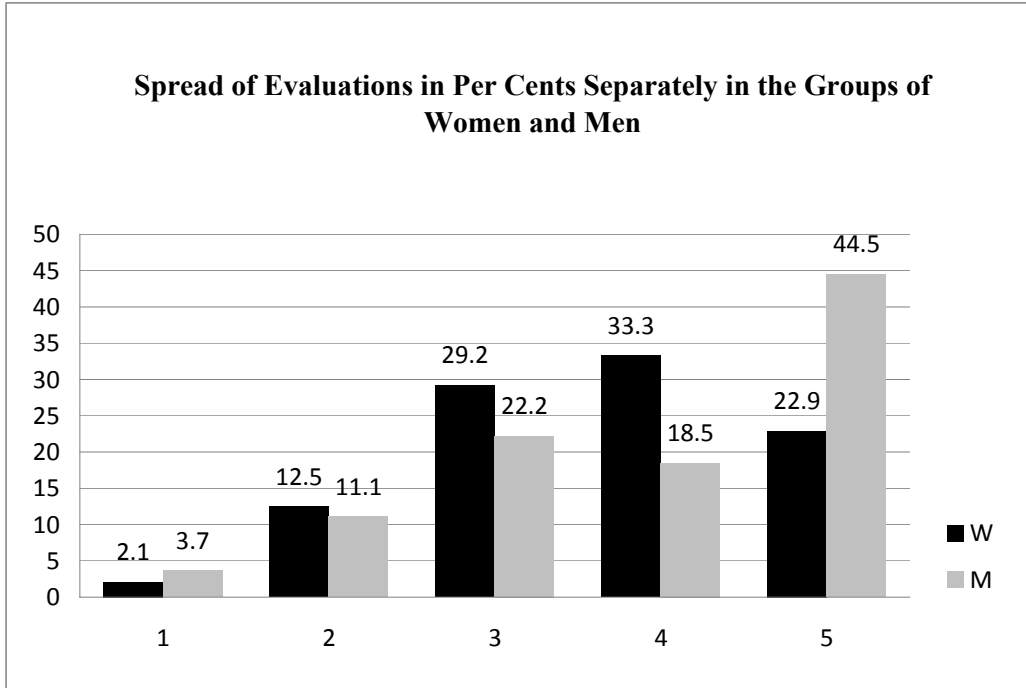


Figure 2. Spread of Evaluations of the Question “Does your Manager Understand your Work Problems?” in Per Cents Separately in the Groups of Women and Men

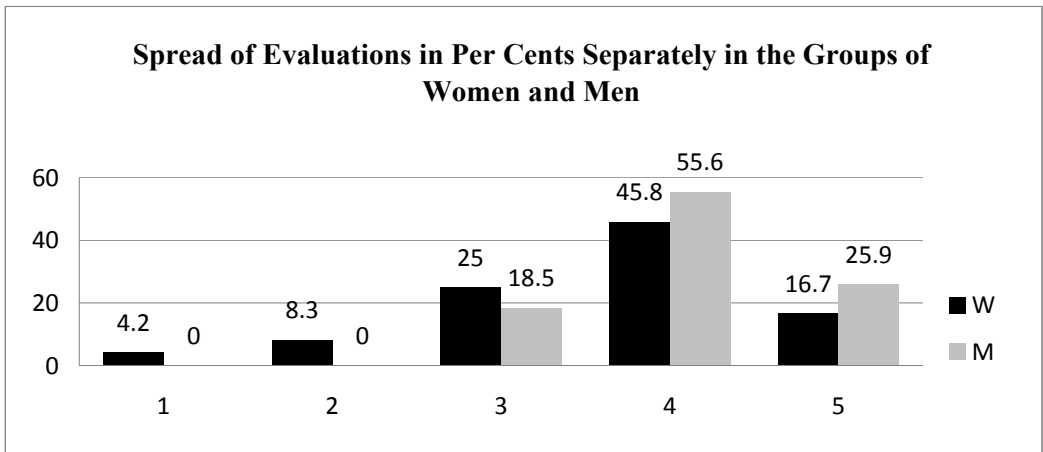


Figure 3. Spread of Evaluations of the Question “What is the Probability that your Manager would use the Power of his/her Position to Help Solve your Work Problems?” in Per Cents Separately in the Groups of Women and Men

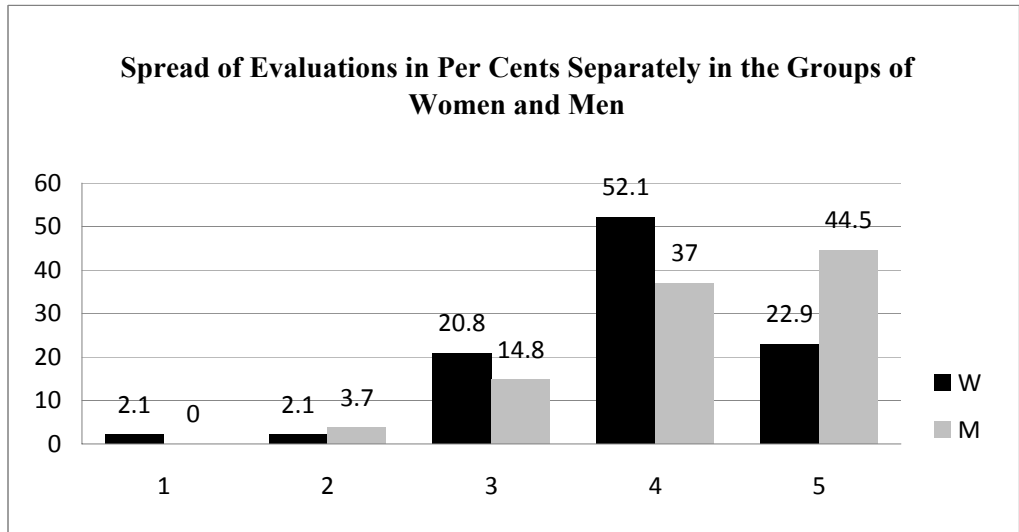


Figure 4. Spread of Evaluations of the Question “How would you Describe your Work Relationship with a Manager?” in Per Cents Separately in the Groups of Women and Men

Generalization of the comprehensive results of the evaluation spread of every question/statement separately in women and men groups is as follows:

- 1) There are 2,8 times more women than men among the respondents who gave very low and low evaluations to question 1. In the assessment of very low, low and average evaluations the total number of respondents is almost equal. Very high evaluations to this question were given 2,1 times more by men than by women. In the assessment of high and very high evaluations the number of respondents is almost equal.
- 2) Among the respondents who gave very low and low evaluations to question 2 the number of women and men is almost equal. There is also no great difference between low and average evaluations together. Very high evaluations were given more by men than by women. In the evaluation of high and very high evaluations the difference between respondents becomes small again.
- 3) Among the respondents who gave low and average evaluations to question 3 the number of women is 3 times bigger than that of men. In absolute figures no respondent gave either very low or very high evaluation to the question. Very high evaluations to the question were provided 2 times more by men than by women. In the assessment of high and very high evaluations together the number of men is little or only 1,3 times bigger than women.

The number of women who have not given either high or very high evaluation is 3 times bigger than that of men.

- 4) Very low and low evaluations to question 4 were assigned by 12,5 per cent of all women. No men gave the question very low or low evaluations. In evaluation of very low, low and average evaluations together there are 2 times more women than men. Very high evaluations to the question were given 1,5 times more by men than by women. In evaluation of high and very high evaluations the number of men is little or only 1,3 times bigger than that of women. The number of women who gave no high or very high evaluation is 2 times bigger than that of men.
- 5) Among the respondents who gave very low and low evaluations to question 5 there are 2,5 times more women than men. In evaluating very low, low and average evaluations together there are 2,6 times more women respondents than men. Very high evaluations to the question were given 2 times more by men than women. High and very high evaluations were given 2,5 times more by men than by women. There are 3 times more women who gave no high or very high evaluation than men (only every fifth men gave no high or very high evaluation).
- 6) Among the respondents who gave very low and low evaluations to question 6 the number of women and men is almost equal. In evaluation of very low, low and average evaluations together there are 3,4 times more women respondents than men. Very high evaluations to the question were given 2,9 times more by men than by women. As regards high and very high evaluations there are 1,4 times more men than women. However in another evaluation the number of women who gave no high or very high evaluation is 3,4 times bigger than that of men.
- 7) Among the respondents who gave very low and low evaluations to question 7 the number of women and men is almost equal. There is also no big difference in evaluations together with average evaluations. However very high evaluations were given 1.9 times more by men than by women. In evaluation of high and very high evaluations together women and men are almost equal again.

Conclusions and Proposals

The performed research of interaction between the leader and followers showed some gender differences in the process of leadership creation. Despite the fact that the major part of the focus group was women similar expression of this index in per cents remains only in the group which created average quality interchange with the leader. In the group which created high quality interchange with the leader this index

practically becomes equal. So, the tendency shows that the number of men is twice as big as the number women and creates high quality interchange with the leader and reaches Stage III “partnership”. Accordingly, the number of both sexes in the non investigated group of leader-member dyad is similar (in absolute figures women take even more: 56 per cent of the group of managers is women and 44 per cent men), it could be stated that the sex of the leader has no important meaning to this tendency.

The research also revealed some influence of the follower’s age on the quality of interchange with the leader. Average quality interchange with the leader starts appearing in Decade III (age group of 21–30 years) and clearly raises in Decade IV (age group of 31–40 years), while high quality interchange with the leader evidences in Decade IV and clearly raises in Decade V (age group of 41–50 years) as well as Decade VI (age group of 51–60 years). The questions how this tendency is related to particular focus group (medical doctors) and what is the influence of work experience and self-trust could be answered by an additional research of these aspects.

The analysis of interaction between the leader and followers allow us to make the final generalization as follows:

- 1) The more aged are the respondents, the more often high quality interchange occurs with the leader and mostly this tendency is seen among the respondents aged 41–60 who already have some work and life experience.
- 2) Besides, the major part of the focus group consists of women, even twice more men in comparison to a group of women create high quality interchange with the leader and reach Stage III, “partnership”.
- 3) Men trust their leader more than women and are ready to protect and to explain his/her decision. Possibly because of higher proactivity in showing persona men feel, understand and support leaders better than women.
- 4) Women feel less understood by their leaders, considerably less than men trust them and more seldom are ready to protect themselves and to explain their decisions.
- 5) However, despite the quality of the interchange with the leader, women who make the major part of the members of dyad are not less pleased in their relationship with the leader than men.

Thus, our hypothesis that the quality of the interaction between the leader and a follower and the process of creation of leadership at the same time are influenced by the age and sex of subordinates was proved in this research. Therefore it could be stated that despite prompt of leaders by the LMX theory to create relationship of mature partnership with every subordinate avoiding any inequity, it’s necessary to take into account such aspects as the followers’ age and sex.

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LATVIAN REGIONAL DEVELOPMENT IN THE CONTEXT OF GLOBAL ECONOMY

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Abstract

With accession to the European Union (EU) on May 5, 2004, Latvia has become an integral participant of the global economy: first and foremost a full-scale participant in relation to the framework of the EU, further as a representative of the community of the EU, and outside the EU as a national, independent state.

Notwithstanding to what community belongs a national state, it is an important player in the global economy, being a phenomenon with its own laws that are studied by macro economy, the conceptions of which are researched and the general conclusions related to every economy of a national state.

In this context, also the Latvian regions may be regarded as an important element of the global economy. It is evidenced by the fact that their inhabitants and enterprises take a direct part in the international labour division. And the welfare of Latvian inhabitants depends a great deal on it.

Unfortunately, in 2007 Latvia has experienced a deep financial and social economic crisis caused by overheating of the economy. During the period of economic growth, Latvia continued to live beyond its means and did not make reserves. And such standard of living was accepted by both the legislative acts of the Saeima and the normative acts of the government of Republic of Latvia, leading, as a result, to a necessity of budget consolidation that was followed by a decrease in inhabitants' life quality created by the devaluation of domestic economy. It is to be expected that the reduction of state expenditure may create an unmistakeable diminishing in the spending part of the social budget. Of course, it may lead to a certain dissatisfaction of inhabitants. But, nevertheless, solutions to decrease the spending part of the budget must be found during the next two years. It should be mentioned that in the beginning of the crisis a search for variants to overcome the implications of the crisis were

undertaken. One of the recommendations in this context was to devalue the Latvian national currency LVL. However, it did not get approval politically. Therefore, another way was chosen by Latvia instead. It was related to conditions dictated by the International Monetary Fund, the European Commission and other donors, including the Scandinavian banks.

Key words: *regions, regional development, globalisation, global economy, economic theory.*

Introduction

In the community of nations, Latvia has gained its identification comparatively recently – on the November 18, 1918, when the Republic of Latvia (further, Latvia) was founded. The territorial structure of Latvia is defined in the 3rd Item of the Constitution of Republic of Latvia (Satversme), which formulates that, according to international agreements, the territory of Latvia consists of Vidzeme, Latgale, Kurzeme and Zemgale. (Constitution of Republic of Latvia, 1922)

Such constitutional territorial division of the state was based on historically developed territorial division, having a much longer history than the Latvian State. The Republic of Latvia was formed on the basis of former Vidzeme and Kurzeme and the districts of Vitebsk provinces populated by inhabitants of Latgale. Therefore, in foreign encyclopaedias and explanatory dictionaries, the identification of Kurzeme (including Zemgale), Latgale and Vidzeme is more popular than that of the Latvia.

The historical and social economic development of every country is very close related to its territorial units which, in their turn, uniting in bigger territorial units under the impact of different historical events, came to development of statehood.

The country's wealth and inhabitants' welfare depend on what kind of historical administrative territorial structure and system of local and regional self-governments has been developed in it. As it is well-known, exactly the self-governments are forming the basics of every democratic country. The more the local and regional self-governments are engaged, institutionally and functionally, with a great deal of self-dependence, financial independence and with a high level administration capacity, the more efficiently the public administration of the state may be implemented in the interests of people.

Per se, the central government cannot multiply the national wealth. It is impossible without strong and motivated local and regional self-governments, the responsibilities of which include care for the growth of welfare of their inhabitants.

The analysis of the policy of regional development, carried out in Latvia during the last twenty years, shows that it cannot be estimated as successful. In Latvian regions, a social stratification of population is to be observed. The gap between the welfare and

the poverty deepens. Additionally, a large emigration of Latvians to abroad takes place during the last years, and, for the most part, in the giving age.

After restoration of independence on the May 4, 1990, the Latvian population cherished great hopes related to the integration into the European Union. However, after the accession to the EU on the May 5, 2004, the gap between Latvian regions continues to deepen. The regional policy of the EU foresees that the support is due to the backward regions to stimulate them to achieve the average living standard of the EU within a possibly short time period. However, the regional development policy that was implemented in Latvia shows a diametrically opposite picture. The wealthiest statistical regions – Riga and Pierīga – continue to be supported by both the EU and the Latvian government.

In negotiations related to the accession to the EU, Latvian politicians let escape a historical opportunity to provide that Latvia might be represented by 5 NUTS2 regions in the Europe of Regions. Instead of it, Latvia declared the state as **one** of the 254 NUTS2 euro-regions, when concluding the 21st Chapter of the negotiations “Regional Policy and Structural Instruments”.

To provide that the Latvian population are not be forced to leave their home, to take a demographic care regarding the nation, to provide a balanced development of Latvian regions, it is necessary, first and foremost, to carry out such regional development policy in our country that can prevent the deepening of disproportions in the regional development. Otherwise, the Latvian regional development, under conditions of the global economy, may cause implications, threatening the existence of the Latvian State as such.

Aim and tasks of the research

The **aim** of the research is to get acquainted with historical development processes of Latvian territory and to analyse the possibilities of development of Latvian regions under conditions of the global economy. To achieve this aim the following **tasks** were carried out:

- to get acquainted with historical development processes of Latvian territory in the course of formation of its statehood;
- to estimate the regional development processes in Latvia after the restoration of independence in 1990;
- to characterize the basic principles of the country's long-term development.

The study is based on the use of following methods: monographic method, synthesis and analysis, logical – constructive method and analysis of statistical data.

Results and Discussion

Review of Historical Development Processes of Latvian Territories

In the flow of time, the Latvian population has experienced quite a lot of changeable events. Long before foundation of the Latvian State, people inhabiting the Latvian territory had to undergo different historical events in certain periods. The territory along the Baltic Sea and its residents were a desirable enough objects to different authorities determined to conquer new territories.

It is impossible to describe the events in Latvian territory as such per se. They had always been in a close relationship with desires of other countries to lord over the territory by the Baltic Sea. In Latvia, the historical development course was more under the influence of representatives of its big neighbouring countries, such as Germans, Danes, Swedes, Russians, Lithuanians and Poles, than under a monolithic territorial formation by home inhabitants.

Also, the geographical location of Latvia and its geopolitical situation has not been favourable to development of the national self-assurance of the local population and to the creation of statehood. The started formation process of the statehood was interrupted: in the beginning by an innocent preaching mission of German priests and the visits of merchants, but later, under cover of spreading of the Christianity, by the arrival of crusaders determined to conquer new territories in the Baltic Sea region with a mailed fist.

All began with the arrival of German merchants in Latvian territory in 1180–1183, together with the Augustan monk Meinhard. About 1184, he resettled to Ikšķile. Here, he built a church and started conversion of local inhabitants to the Catholicism. After successful activities in the country of Livs, the monk Meinhard was appointed the first bishop of Ikšķile. With this historically dated fact, the German era took its beginning at the Daugava estuary.

After the death of the bishop Meinhard in 1196, the aim of the next bishops of Ikšķile (Berthold and Albert) remained the previous: under cover of implementation of the Christianity, to put down roots in the Baltic Lands. In 1201, the Bishop Albert, aimed to capture the power and to strengthen his impact in the Baltic Lands, bought a parcel of land from the Livs in the place where the river Riga fell in Daugava. On this parcel of land that was previously allocated to merchants by local inhabitants Bishop Albert started the building of Riga city, so creating in this place a new trading centre and the port. Henceforth, the Riga city served to Bishop Albert as a German supporting base by Daugava, when strengthening of Livonian authority over the whole territory of today Estonia and Latvia.

From the 13th century to the second half of the 16th century, the inhabitants of Latvian territory were a structural element of **Livonian state**. The era of Livonian state took

its beginning in the end of the 12th century and in the beginning of the 13th century when the invasion of German knights into the region of the Baltic States occurred. Having conquered the Latvian and Estonian territories, they named them Livonia after their natives – the Livs.

In length of time, a confederation of five small countries, like such ones typical to the Middle Ages, developed in the Livonian territory. Three of them: the Archdioceses of Riga and Kursa and the State of Livonian Order belonged to Latvian territory. (Latvijas vēsture 2005: 16)

The period of Livonian Confederation lasted from 1435 to 1567. During the Livonian War (1558–1583), in 1561 the former Livonian territory was divided into three parts: between Poland, Sweden and Denmark.

According to the Capitulation Agreement of November 28, 1561, the former Lands of the State of Livonian Order and of the Archdiocese of Riga that were located on the East side of Daugava (Latgale, Vidzeme and South-Estonia), got under direct jurisdiction of the King of Poland Sigismund II August. As a legal act, that jurisdiction took place on December 10, 1566 in Cēsis, when there took place the unification of this Province with the Grand Dukedom of Lithuania, which was accepted by the Seims of Lithuania and approved of the King in the end of December 1566. This new administrative unit was named **the Dukedom of Pārdaugava (1566–1629)**. (Latvijas vēsture 2005: 21)

On the Westside of Daugava in Latvian territory, there emerged **the Dukedom of Kurzeme and Zemgale**. In 1562, it became the Suzerain Dukedom of Lithuania – Poland, maintaining the independence in its domestic affairs, however, being in vassalage as for Poland – Lithuania. (Latvijas vēsture 2005: 18–19)

On March 5, 1562, in the Castle of Riga, the Master of the Order Gothard Ketler lodged all his governing symbols to the Commissioner of the King of Poland Sigismund II August. However, already on the next day, Gothard Ketler announced that, “according to the Lords Grace, he would be the Duke of Livonia in Kurzeme and Zemgale”. With this historical fact, the Dukedom of Kurzeme became founded officially, with Gothard Ketler as the first Duke of Kurzeme.

During the whole period of the Dukedom of Kurzeme, it was governed by the Duke Gothard (1562–1587), the Dukes Friedrich and Wilhelm (1587–1642), the Duke Jacob (1642–1681), the Duke Friedrich Kazimir (1682–1698), the Duke Friedrich Wilhelm (1698–1711), the Duke Ferdinand (1711–1737), the Duke Ernst Johan Biron (1738–1758), the Duke Karl (1758–1763), repeatedly by the Duke Ernst Johan Biron (1762–1769) and by the last duke of the Dukedom of Kurzeme Duke Peter (1769–1795). (Juškēvičs, 1993)

The age of the Dukedom of Kurzeme lasted 233 years and ended in the 1795. During the whole period of the Dukedom of Kurzeme, it was governed by both talented statesmen and less successful dukes. When governed by capable statesmen, the

Dukedom of Kurzeme flourished with development of its distinctive culture, but when governed by weaker governors it lost the splendour and became a desirable territory to a lot of countries of that time.

In the course of historical developments, the contribution of the Dukedom of Kurzeme to the European culture was appreciated, and it belonged to the countries that protected the Western values against evident and targeted propensities of the Eastern countries toward conquest of new territories in the West. However, when the Dukedom of Kurzeme underestimated threats to it, it became exposed to Eastern forces easily.

According to opinion of historians, a fatal mistake in relation to the Dukedom of Kurzeme was made by the Duke Gothard. In his old age, the Duke Gothard did not leave the governing of the Dukedom of Kurzeme to his eldest son Friedrich, as it should be in accordance with the customary order, but divided the dukedom in two parts: the son Friedrich got Zemgale, but the son Wilhelm (up to 1594 under age) – Kurzeme. Since 1587, until coming of age of his brother Wilhelm, the economic and political life of the Dukedom of Kurzeme was in the hands of the Duke Friedrich. However, in accordance with literature sources (Juškēvičs, 1993:11), soon between the brothers there broke out disagreements that resulted in concluding of an agreement between them in Tērvete in 1596. In accordance with it, the Dukedom of Kurzeme became divided into two autonomous parts: the Zemgale (with its government centre in Jelgava) and the Kurzeme (with its government centre in Kuldīga). Thus, in the framework of a unified dukedom there emerged two governments, two courts, two procurement departments of the dukedom. Without any excessive objection, the King of Poland approved of that agreement. He understood very well that in such way the strong suzerain would be weakened and, in the case of extinction of the Ketler kin, both parts of the Dukedom of Kurzeme might get fully under governing of the Poland. (Latvijas vēsture 2005: 21)

In relation of foundation of the Republic of Latvia, the concluded between the brothers Friedrich and Wilhelm Ketler in Tērvete in 1596 agreement, left a lasting impact on the territorial structure of Latvia. For their part, the today Vidzeme and Latgale became mapped in the end of the 17th century, together with division of the Dukedom of Pārdaugava between Poles and Swedes. Since then, both the Vidzeme and Latgale have obtained their cultural and historical identification and their geographical title.

With foundation of the Republic of Latvia on November 18, 1918, these historically developed territorial units became legitimated as independent territorial units by the 3rd Item of the Constitution of the Republic of Latvia: i.e. Kurzeme, Latgale, Vidzeme and Zemgale.

A new independent state – the Republic of Latvia emerged on the world's map. It had inherited an economy that was damaged by the First World War. However, in a twenty year long independence period, up to the June 17, 1940, when the statehood of Republic of Latvia was violently interrupted by the armed forces of the USSR, it had

achieved considerable results in social economic development during this first independence period. In its economic development, it ranked next such developed European countries as, for example, Finland, Denmark and Netherlands. It should also be mentioned that Latvia went comparatively easy through the hardships of the first global scale crisis of 1929–1932.

The loss of Latvian statehood in 1940 was followed by a 50 year long soviet governing in the structure of the USSR. Although during these years Latvia had to live in accordance with conditions dictated by the centralized planned economy system, yet the Latvian population managed to maintain their working skills throughout the years of captivity, keeping high virtues and independence ideals.

When the empire of the USSR collapsed, Latvia turned out as being one of the most economically developed republics of the USSR, but in sense of the welfare – as being one of the uppermost evaluated units. In accordance with the studies carried out by Latvian economists (Andris Burtņieks, Romāns Vitkovskis, Modris Šmulders) in the end of the 1980s and in the beginning of the 1990s, it was concluded that, if our country had not experienced the occupation by the USSR, then today the Latvian economy would be approximately on the same level as the economy of the Finland and Denmark. (Barkāns&Balode 2005)

Regional Development after Passing of the Latvian Independence Declaration 4, May, 1990

As it is known, in the end of the 20th century, the USSR was embraced by a heavy political and economic crisis, with signs of a collapse turning up. At the beginning of the 1990s, Latvia anticipated big changes. The 4, May, 1990 is a significant date in Latvian history. The Supreme Council passed the declaration “On Restoration of the Independence of the Republic of Latvia”.

With restoration of independence, Latvia had to create a new legislation system. The transition period from a centralized planned economy system to the market economy set in. It meant the beginning of a transition period characterised by revision of former authorities and legal procedure. A situation came into being that it was necessary to change the created by the USSR political system and the social economic basis. However, the creation of a new legislation normative basis required a certain time period. Therefore, a legal vacuum aroused, because it was necessary to replace, step by step, the elaborated and passed in the Soviet Union laws and normative acts, having functioned and regulated the development of Latvian economy during the last 50 years. Such kind of changes touched also the interests of all Latvian inhabitants.

Latvian inhabitants understood that the queues in the shops had come to an end. Together with liberalization of the trade area, the queues in Latvian shops were

liquidated. It became possible to buy and sell all that was produced in the West, East, North and South.

The ownership of Latvian citizens was restored. And with restoration of the ownership on immovable property, there were abolished also all kinds of restrictions in such an area as running of rural farms and allotments. It meant the further welfare of people being dependent on results of their own work.

The finishing of privatization of state and self-government enterprises and the land reform in the cities and rural areas led to a balance of the interests of former and new owners. There came into being such an opportunity as the practical use of advantages of the cooperation in order to favour labour efficiency of all participants: producers, processors, traders and consumers.

Of course, the Latvian inhabitants expected that politicians would carry out a balanced development strategy in all districts of the country that would guarantee satisfaction of the current needs without affecting the satisfaction of needs of the future generations. It bound the authorities to a holy responsibility and a historical mission not to burden the future generations with debts, not to sell out the land; to provide the possibility that the privatized state and self-government property are to be obtained by the legal owners, creators and legatees; to provide, reasonably, that the obtained during seven centuries statehood, the created by the population wealth and the accumulated by the ancestry legacy might not, in a nick of time, come into the hands of foreign owners, whilst Latvian inhabitants, for the sake of survival, may be pressed to spend their savings, to sell out their property and, as a result, to turn from the owners into knaves in their own country.

It was expected that in the interests of maintenance of Latvian culture and historical legacy and of Latvian values, and of strengthening and development of the norms of traditional lifestyle of the people, nation and the state, there would be implemented in our country a complex of measures aimed to improve the economic, social and demographic situation in relation to every Latvian culture and historical district. It was expected that a special place in this complex would be foreseen for education, culture and science, being a dominant of development of loyalty, patriotism, harmony and confidence among all nationalities, populating Latvia. Things, like incoming, spreading and rooting in Latvia moral, ethical, religious and other customs, being extraneous to the mentality of Latvian population, traditions and lifestyle, were not foreseen.

It must be realized that very little is achieved from it all. During the last decades Latvia experiences unbalanced development throughout the territory of the country. It has created impoverishment of the population, wasting of natural resources, depletion of production basis, and losing of economic independence.

To accession to the European Union, there were connected long-range aims by Latvian people related to both the increase of competitiveness and the increase of the welfare of the population. However, the opportunities provided by the support of EU

structural funds were used not fully by Latvia. At the same time the financial economic crisis and the loan of foreign donors have led the country and its inhabitants into a thankless situation for decades.

During the last years Latvia experiences a rapid decrease of economic growth, and today it is one of the poorest member states. In our opinion, the answer is to be found with the help of analysis of the basic principles of a sustainable development of the countries. It is possible to distinguish three basic principles of sustainable development of a country, when estimating the development processes of democracy in the Western European countries, having achieved a high level of people's participation in the state administration, namely, the principle of political stability, the principle of a balanced regional development throughout the territory of the country and the principle of finance stability.

The Basic Principles of Sustainable Development of the Country

As the first, the **principle of political stability** is to be mentioned. The political stability of a country is related close to implementation of the aims of the country's economic policy.

In special literature, there are mentioned four aims of economic policy that are contradictory by their nature. The coordination of them and making of consequent compromises are to be anticipated by every political power forming the government. These aims are:

- control of inflation or providing of price level stability (control of inflation);
- decreasing of unemployment or providing a high level employment (reduction of unemployment);
- providing of a continuing and sufficient economic growth (promotion of economic growth);
- control of balance of payment, providing a balance between revenues and expenditures of the state budget (attainment of a favourable balance of payment). (Beardshaw 1989: 72)

A high rate in increase of the GDP and of economic growth may be achieved by the way of a simultaneous price level stability throughout the country, by a high level employment, by social security of inhabitants and by an even balance of foreign trade.

In the declaration of the government, the parties forming the government have to define priorities related to the above mentioned aims. Of course, it does not take place in unanimous atmosphere that is caused by the fact that in programmes of the parties forming the coalition government there are, sometimes, different opinions in relation to implementation of priorities of different aims. (Keišs 1999: 101)

In the actual life, politicians, sometimes, anticipate approaches that are quite opposite to such declared by the parties forming the government:

- **right wing** – to avert the most radical moments of inequality in economy, providing so every enterprising individual with a full spectrum of putting into practice of his opportunities;
- **left wing** – to stand to the principle of social justice or welfare redistribution between the rich and the less wealthy.

The differences of opinions are most of all apparent in relation to redistribution of the budget revenues, taking place either in favour of development of entrepreneurship or in favour of implementation of the programme of social security of the population.

The practice of both the governments of the first Latvian independence period and the governments of restored independence period give evidence that there still continue to be problems with **providing of succession in the economic policy**.

When elections of the parliament and changes of governments take place, the economic programmes started by former governments become not always implemented fully. The economic effect from the started reforms and related to them investments, **stays away** because of the fact that by the change of governments there are **sometimes changed** the conceptual positions of the development of economy.

During the last twenty years, the Latvian policy was dominated by the right wing or the liberal wing governments. The representatives of social democratic direction have not participated in formation of the governments and in their work. To provide a sustainable political stability in democratic countries, also the parties of the centre of the way and the conservative parties take part in the public administration along with these both political powers. It provides predictability and a long-term sustainability in the public political system.

In Latvia, the parties of the centre of the way and the conservative parties that, in accordance with their vision, might be oriented to a long-term development of the country have not yet announced themselves.

Since restoration of the independence of Latvia, their own course have, indisputably, carried out liberal market model economists, politicians, different rank foreign consultants and specialists, having tried to explain the regularities of economic development processes of the transition period on the basis of fiscal, monetary and budget policy.

The free market, such as it was in the end of the 30s of the 20th century, was not commensurable with the situation, taking place in the beginning of the 90s of the same century, when the Latvian economy had to begin to function under quite different conditions. In addition, there has not been an analogue in the history of a transition from the planned economy to the market economy.

The understatement of these differences led to a decline in Latvian economic life.

The world's realities of the 90s of the previous century showed that the economic influence spheres of the world were divided, the markets were regulated and protected, the raw material prices set on the basis of demand and supply. Therefore, the

absorption of the concepts of the free market theory of Adam Smith in its classical apprehension of that time did not lead to the expected results in Latvia.

The concepts of the liberal school, formulated in the book of Adam Smith (1776) "The Wealth of Nations" were based on the situation of that time, when there, on the basis of free contracts, developed the relations between the landed classes and the peasants, the relations between the state, craft-men and the population. This idea, of course should be taken in account; however, it should not be exaggerated, when analysing the realities of the 21st century.

The European economic area, into which all post-socialism countries tried to integrate, is functioning according to the passed directives, rules and regulations, therefore it must be taken into consideration, that its free market is not free long ago, but is a strongly regulated one.

It is interesting what in relation to Latvia is said by the Cambridge University economist Hadžūns Čangs in the foreword of the book's "Bad Samaritans" translation into Latvian. (Čangs 2011: 9-13) During the last twenty years, he has studied the problems related to economic development and globalisation. On the 12th page of Latvian edition he writes that when Latvia split off from the Soviet Union, it might have been able to take care of its production basis to achieve the level of international standards (like Finland, Austria and Sweden) on the basis of intelligent industrial policy (being used by all today rich countries before their full development). Unfortunately, a neoliberal strategy was chosen instead that was oriented to a radical abolishing of financial regulation. For some time, it seemed that this strategy is working as the money was flowing in from the foreign countries because of search for easy speculative gains. However, it turned out that the financial boom that followed could not be sustainable and led the country to one of the largest peacetime breakdowns in the history of mankind. (..) It will take a great while for Latvia to renew its economic activities, experienced before this crisis. This will be a period, requiring to get through big sufferings related to the lives broken down by the unemployment, burdened by destructive debts, deprived dwelling and ruined families. (Čangs 2011: 12)

As a matter of the fact, the said is based on the opinions of Latvian local inhabitants and specialists. When Hadžūns Čangs was in Riga, his host Džefs Sommers and his colleagues told him that Latvia had implemented the neoliberal policy in a most extreme way and now was experiencing its implications. He had got indignant because of the fact that the country, which had scarcely got rid of a wrong economic system (central planning), being imposed on it by a dominating foreign authority (Russia), was led into an incorrect system (neo-liberalism) by other dominating authorities (the European Union and the USA). (Čangs 2011: 11)

Such is the viewpoint of the authoritative economist of the Cambridge University, Hadžūns Čangs, having been the consultant of the World Bank, the Asian Development Bank, different agencies of the UNO, as well as of the governments of

Japan, Great Britain, Brazil, Canada, South Africa and Venezuela, on the implementations created by the global financial and economic crisis in Latvia. In his book, H. Čangs expresses sharp words about the neoliberal policy carried out in the global economy, on the topic that it was favourable to strong economies, not allowing the international market to be entered by new competitors. In his work, the author also mentions the three international organisations, forcing the developing countries to implement the neoliberal policy (the World Bank, the International Monetary Fund and the World Trade Organisation). In their words, these organisations express a desire to achieve that all countries might be developed and prosperous, however, their activities, basically, are stimulating the developing countries to sink increasingly into poverty and debts. In their words, these organisations, being backed by the governments of the rich countries, invite all developing countries (including Latvia) to open their economy to the free market, but their governments – to relinquish the use of the norms of market regulation (protectionism, subsidies, government interference and others), although, in the markets controlled by themselves, they support the protectionism, elaborate norms regulating the economy on a global scale, which are to be accepted unreservedly by everyone striving to act in the area of the global economy. If such conditions are not accepted, then they are pressed to act in accordance with conditions elaborated and accepted earlier by them, with restriction of every own initiative of national states to solve acute problems independently. In other words, there are used methods that, during the historical development periods, had never been imposed by some outside force, except the military. However the countries, having arrived at the top of richness, do not spurn to take the opportunity to grow rich on account of exploitation of the geographical location, the natural resources, the human resources, and the production potential of other countries.

After restoration of independence, Latvia would have hardly got into such situation, if it had not been because of the interests of missions of international organisations, western consultants of different scale, state advisers and other supporters. Of course, the missionaries, arriving in Latvia as visitors, declared to Latvian politicians and government representatives their aims of activities that were related to support activities, advising, organisation of eleemosynary activities and teaching how to implement the recommendations into practice to provide that Latvia would be able to succeed in a more fortunate transition from the planned economy to the market economy. Although they lacked such experience because of being taken place in the history for the first time, they took the initiative to give recommendations how Latvia should be developed in the future. However, it should also be considered, if Latvian politicians would have been able to invent anything of the same kind by themselves without the advice from outside, so that, as a result, the state and its inhabitants had come to such a crisis-ridden situation after 20 years of independence. It is understandable that different international organisations were interested in Latvia, because Latvia, as one of the most developed post-soviet republics, was regarded as a

big advantageous future business project, and every of these organisations desired to colour the map of Latvia with their own colours. All that was necessary was to carry out the necessary study and give advice to local politicians to provide that the investments could bring the return after some time.

As one of such examples was the Latvian decision in the beginning of the 1990s to entrust the Danish experts with estimation of all projects financed by the Latvian Scientific Council to demonstrate to the world on what creative topics are working Latvian scientists. In such way was achieved the publicity in relation to all scientific elaborations and to results of intellectual activities of Latvian scientists, revealing the potential capacity of the country's science.

The second example may be related to the introduction of the Latvian national currency lat (LVL). Obviously, the transition to the national currency was also carried out on the basis of recommendations of international consultants. Already in that time, the indication that the exchange rate (1 LVL = 200 Latvian roubles) was too high had not been taken into consideration. As a result, with introduction of the exorbitant national currency, there was achieved a decline in development of Latvian economy because of the lack of the money in circulation, the economy of the country began to lose blood. The aim was achieved, and the banks of Western countries were invited to stimulate the development of Latvian economy with their investments. Of course, at that time the Latvian banks did not possess such resources to credit the economy. With the influx of cheap credits offered by the Scandinavian banks, the country, being thirsty for credit resources, got the opportunity of a cheap borrowing and of property acquiring at a low price. During this period, the Latvian inhabitants and entrepreneurs could draw breath because of having got free accessible credit resources. However, very soon a heavy disillusionment set in, because Latvia was touched by the global financial crisis.

One more example that should be mentioned is related to doing away with sugar industry in Latvia, having functioned successfully for decades. All three sugar refineries – Krustpils, Liepāja and Jelgava, which were built during the first independence period of Latvia, were pressed to cease production. All these sugar-refineries had functioned successfully even during the soviet period, however, with accession of Latvia to the European Union, there was no more place for them in the united EU.

It may be continued with such examples. However, it seems that the popularisers of the idea of neoliberal market economy have at least understood where the state and its inhabitants have arrived. Therefore, they have begun, step by step, to look for the basics and to explain the causes of the failure of the reforms implemented by them.

As the first cause of the failure there should be mentioned the Latvian constitutional framework – the Constitution of Republic of Latvia (Satversme).

The highest legislation organ of Republic of Latvia is Saeima. Saeima consists of 100 elected parliamentarians, who are elected in common, direct, free, equally and secret ballot for 4 years.

During the both periods of independence of Latvia – 20 years of independence before the Second World War (1918–1940) and the twenty year period after restoration of independence (1990–2010), it comes to the light that the existing system of political parties in Latvia bear rather a resemblance with business projects of political parties than with a formation that have to strengthen the democratic norms and to implement them into a sustainable development of the country to provide the increase of inhabitants' welfare.

Today, the proportional election system of Latvia creates a discussion, if it has justified itself at all. The Latvian constitutional framework – the Satversme of Republic of Latvia – shows that it has been not sufficiently strong enough. Being based on the number of parliamentarians elected in proportional elections, the parties play a great role in formation of the government. During the processes of formation of the government and after approval of it by the Saeima, they claim that essential decisions are being coordinated with them by the Prime Minister.

Also the today discussion on the topic of state elected President is, in our opinion, beneath contempt as it has happened to anticipate the authoritarianism features in the course of development of Latvia as the state.

The sources of Latvian history show (Šilde, 1976: 675) that the Prime Minister of that time Kārlis Ulmanis dissolved the parliament on May 15, 1934 as it was not able to take important decisions related to the interests of the state.

Of course, the population remembers the time of Ulmanis and the reforms carried out during that period. Therefore, it is quite possible that it might desire an equal statesman to be made the President. However, in a small country like Latvia, such choice of the population may, under conditions of the global economy, create also a chain of risks, against which Latvia turned out as to be not protected before the Second World War in 1940. As it is known, under keeping of silence, there were accepted conditions dictated by the state of occupation that would hardly have been accepted by lawfully elected parliamentarians of the Latvian Saeima.

The second proposal to be discussed in relation to the change of election system is the introduction of a mixed election system. It means that the state government structure and the territorial division should be implemented on the basis of the said in the third item of the Satversme, i.e. the territory of Latvia, in accordance with the frontiers set by international agreements, consists of Vidzeme, Latgale, Kurzeme and Zemgale. To be more precise, it is proposed to carry out the reform of the election system on the basis of taking into consideration of the principle of Latvian historical territories, and forming 5 regional self-governments. (Keišs&Kazinovskis, 1997) The mixed election system would mean that 50 parliamentarians of the Saeima of Republic of Latvia

would be elected, in accordance with the lists of parties, on the basis of proportional election system, but 50 parliamentarians, in one-mandate constituencies, in compliance with a plurality election system. As a result, in accordance with the plurality election system, every historical territory would be represented by ten parliamentarians in the Saeima of Republic of Latvia.

In such way, it would be achieved that the Latvian traditional districts would comply with the European regional model, functioning in the European Union. Of course, it would slow down the processes of arriving at political decisions in the Parliament, however, the passed laws and other normative acts of the government would be evaluated and substantiated much better from the viewpoint of long-term development of the country and increase of capacity of Latvian regions. It would win the favour of people for a more active participation in political processes, as well as create the conviction and a perspective feeling in relation to a sustainable development of economy.

As the second cause of failures may be mentioned the centralisation tendencies of authority and finance to be observed in Latvia, having slowed down the accession of Latvia to the European Union with a second-level model NUTS 2 of self-governments.

As it is well known, during the second half of the 20th century an intensified development of transfer of authorities' functions to the lower level took place – in a way from the centre to the new intermediate regional institutions. The decentralisation movement was motivated by division of authority to block up the way to new dictatorships, to break down the monolithic and inefficient national bureaucracy, to overcome the concentration of political authority on national level, to elevate the process of regional planning on an institutional level, to substitute the processes that had turned out as unsuccessful, and to respond to the activities, being required by regional autonomies, historically developed and based on cultural and linguistic processes. (Keišs&Tilta&Kazinovskis&Zariņa 2004:88) If, constitutionally, the rights of the local self-governments were legitimated in the Luxemburg in 1789, then on the regional level, having been created as an intermediate between the central government and local self-governments, it occurred only after the Second World war: for example, in the Federative Republic of Germany – in 1949, in Portugal – in 1976, in Spain – in 1978, and in France – in 1982. (Norton 1994: 559)

If Latvia had accessed to the EU with the model of 5 regions, then in the end of the 2008 the regional self-governments would have hardly allowed the state to deal with solution of such budget problems that were created by the global economic crisis. The financial risks would be diversified between the state and the 5 regional self-governments, and the state had not the need to carry out a policy of an inner devaluation of economy, having made an essential impact on the economic growth.

As the third cause of failure should be mentioned the concepts of neoliberal economic school that dominated on a global scale. Latvia, following consequently to requirements of implementation of directives, regulations and other norms issued by

international institutions and regulating the market economy, was one of the first countries that felt the implications related to the necessity of budget consolidation. The lesson taught by the crisis was that the state, in order to fulfil the requirements brought forward by different supranational organisations, is not allowed to pass laws, the observation of which is not covered by appropriate budget revenues. The state is not permitted to live beyond its means, borrowing in different financial markets. In the beginning of the 21st century, a number of national states have been dragged into epicentre of the global financial crisis, basically, because of excessive borrowing.

As it is well known, the theoretical principles of macro economics of the first half of the 20th century were based on the ideas of the English economist, John Maynard Keynes, and which declared during the great depression or the world's economic crisis 1929–1933 that the labour market and the money market cannot be balanced without participation of the state, because the production amount and the employment in economy depends on demand. Without demand there is no supply, but with an insufficient demand the economic development begins to slow down. In avoidance of such implications, a great role may be played by state support in vitalizing of economy. If the Keynes' economic theory vitalized the global economy after the world economic crisis in the 30ties of the 20th century, then during this crisis the global economy anticipates the implications created by the monetary policy. The founder of the monetary economic theory is the economist of the USA Milton Friedman. The concepts of the monetary theory are based on the changes in the mass of the money, being the main cause of changing fluctuations in economic development. In result of regulation of the money mass, there become influenced both the price level and the income and employment of inhabitants, but the stabilization of the money mass in circulation secure the stability of economy as a whole. (Ekonomikas un finanšu vārdnīca 2003: 231. lpp.) In its turn, the neoliberal course, the basic concepts of which were formulated in the 70ties of the 20th century, favours such free market economy that foresees a minimal intervention in economic relations. At the same time, the states have to accept such rules of the game that are prescribed by international organisations. In this case, the states cannot participate actively in regulation of the economic processes on their own, as it may be possible to anticipate the trespass of some norms of the regulations.

The Principle of a Balanced Regional Development throughout Territory of the Country

As the second basic principle of sustainable development of the country is to be mentioned the **balanced regional development principle throughout the territory of the country**. In Latvia, the problem is, essentially, in the creation of a balanced position in delegation of political and economic responsibility. The problem is how to create a balance between the structural principle realised by the government ministries (political responsibility) and the government of administrative territorial complex (regions) (economic responsibility). The law on government ministries foresees to implement the political responsibility on the basis of the structural principle. It means that every government forming party delegates its representative to be a minister that implements the objectives declared by the programme of the respective party. Although the government declaration is prepared by the parties, having formed the government, ministers, sometimes, place the priorities of party programmes higher than those of the government declaration.

It is generally known that the economy may function successfully only then, if its spreading and action capacity is developed equably enough throughout the territory of the country. Support of entrepreneurship development has to take place not only in the biggest and richest Latvian cities, but also in all social economic centres and rural territories throughout the country. In creation of the regional policy in Latvian rural areas, it is essentially to take into consideration the really existing social economic situation. In relation to the investment structural policy, the main accent is to be put on the investments into rural regional projects, developing the processing enterprises, forestry and forest industry, enterprises of agro-service, the road infrastructure, rural tourism objects, improving education, culture and social infrastructure. The new building of production objects in the social economic centres of the districts might also be less expensive in comparison with the reconstruction, modernisation and restructuring of the old objects in the big cities.

The Principle of Finance Stability

As the third basic condition of a sustainable development there should be mentioned the **principle of finance stability**. The finance stability in a country is evidenced by a balanced position between budget revenues and expenditures. As it is known, a certain part of the revenues of the state budget are received from the business sector. The second most important source is the foreign trade.

The data of the Table 1 show that the Latvian national debt has grown from 372,6 million LVL in 1998 to 6989,6 million LVL in 2011, making 59% of GDP. The external debt makes 90,7% that will be necessary to be re-credited in the immediate future, because the sums to be paid to international borrowers in the next years will be very large.

Table 1

The Debt of Latvian Central Government (million LVL)¹

| Year | 1998* (Fact) | 2004* (Fact) | 2005** (Fact) | 2009*** (Fact) | 2010*** (Prognosis) | 2011*** (Prognosis) |
|-------------------------|-------------------------|-------------------------|--------------------------|---------------------------|--------------------------------|--------------------------------|
| Total national debt | 372,6 | 975,0 | 1061,1 | – | – | – |
| Central government debt | – | – | – | 4779,9 | 7008,0 | 6989,6 |
| % of GDP | 9,5 | 13,3 | 11,9 | 37 | 59 | 59 |
| of which | | | | | | |
| – inner debt | 141,0 | 423,0 | 520,4 | 791,2 | 799,3 | 649,0 |
| – external debt | 231,6 | 552,0 | 540,7 | 3988,7 | 6208,7 | 6340,5 |

As it is to be seen, the global financial economic crisis took Latvian economy in 2009 by surprise. Although before the crisis, the Latvian government boasted with high macro economic growth rates, however, the collapse of *Parx banka* and the credit policy carried out by the banks created a considerable debt burden to the state, to self-governments, entrepreneurs and to the households.

The Table 2 shows the debt service cost of the Latvian Central Government. They are big enough. It is to be taken in account that in the case of re-crediting the interest rates of the loan might increase. Hence, also the total sums of debt service will be still considerable to Latvian taxpayers.

The data of the Table 2 show that the inner and external debt service cost increase rapidly, beginning with the 2009, and in 2011 are already 334,0 million LVL. From the Table 2 is to be seen that, in the following years, the debt service cost together with the planned payments of the principal sum will be a heavy burden to Latvian state budget.

The financial stability of a country may be characterized also by the export and import balance. For the last time, the export and import balance, as it is to be seen from the data of the Table 3, was positive in the 1993, with a 36,4 million LVL. However, during the following years, Latvia began to import more than to export. Such tendency continued from year to year, and in 2007 the negative balance was already even 3739,9 million LVL.

¹ Sources: www.fm.gov.lv homepage. *Likuma "Par valsts budžetu 2006. gadam" paskaidrojumi. Makroekonomiskās stratēģijas apraksts, - 26. lpp. ; **Likuma "Par valsts budžetu 2007. gadam" paskaidrojumi. Makroekonomiskās stratēģijas apraksts, - 29. lpp.; ***Likuma "Par valsts budžetu 2010. gadam" paskaidrojumi. 6.nodaļa. Valsts finansiālo saistību kopsavilkums. – 863. lpp.

Table 2

Government Debt Service Cost (million LVL)²

| Year | 2004* (Fact) | 2005** (Fact) | 2009*** (Prognosis) | 2010*** (Prognosis) | 2011*** (Prognosis) |
|--|-----------------|------------------|------------------------|------------------------|------------------------|
| Central government debt service cost – total | 46,9 | 47,6 | 212,5 | 301,0 | 334,0 |
| Inner debt service cost | 23,6 | 23,3 | 65,4 | 82,1 | 81,1 |
| External debt service cost | 23,3 | 24,3 | 61,2 | 141,1 | 241,2 |
| Other interest rate payments of the state budget | | | 85,9 | 77,8 | 11,7 |

Table 3

Balance of Exports and Imports of Latvia (million LVL)³

| Year | 1993* | 2004** | 2006** | 2007** | 2008** | 2009*** | 2010*** |
|---------|-------|---------|---------|---------|---------|---------|---------|
| Export | 675,6 | 2150,0 | 3293,2 | 4040,3 | 4428,9 | 3602,2 | 4666,5 |
| Import | 639,2 | 3805,3 | 6378,5 | 7780,2 | 7527,7 | 4709,8 | 5840,8 |
| Balance | +36,4 | -1655,3 | -3085,3 | -3739,9 | -3098,8 | -1107,6 | -1174,3 |

The data of the Table 3 show that only with the beginning of the financial economic crisis the Latvian governments began to pay attention to stimulation of measures favouring the export. It is confirmed also by the results of the 2010 in comparison with the 2009. Although up to now there takes place a negative export and import balance, however, the positive tendency let hope that even the outer global scale crashes will not influence this tendency for a long time. Good export results are shown also by the

² Sources: www.fm.gov.lv homepage. *Likuma “Par valsts budžetu 2006. gadam” paskaidrojumi. 6. nodaļa. Valsts finansiālo saistību kopsavilkums; **Likuma “Par valsts budžetu 2007. gadam” paskaidrojumi. 6.nodaļa. Valsts finansiālo saistību kopsavilkums, – 665.lpp.; ***Likuma “Par valsts budžetu 2010. gadam” paskaidrojumi. 6.nodaļa. Valsts finansiālo saistību kopsavilkums, – 863. lpp.

³ Sources: *Latvijas Statistikas gadagrāmata, 2001, Latvijas Republikas Centrālā statistikas pārvalde. Rīga, 2001, 180. lpp.; ** Latvijas Statistikas gadagrāmata 2010, Latvijas Republikas Centrālā statistikas pārvalde. Rīga, 2010, 441. lpp.; *** Latvijas ārējā tirdzniecība. Svarīgākās preces un partneri 2010.gadā. Informatīvais apskats. 2010/4. Latvijas Republikas Centrālā statistikas pārvalde, 2011.

entrepreneurs of all Latvian regions and it hold out hope that, in future, Latvia will be able to arrange its finances.

Conclusions, Proposals, Recommendations

The touched by financial economic crisis Latvia is worried especially by unbalanced territorial development, creating problems related to development of competitive production in Latvian regions. In regions, the entrepreneurs, and especially the farmers, feel the complexity of the situation. It would require from the state to use all opportunities how to facilitate the development of production in regions under conditions when the implications created by the crisis are to be overcome.

A more balanced regional development might be stimulated on account of decentralization of authority and finance in favour of regions. The nearer the authorities, together with all administrative and financial resources would be located to the territories of the districts, the more successfully it would be possible to solve the problem of accelerated development of economic activities. In such way, in accordance with resources and opportunities being at disposal, there would be solved urgent problems related to attraction of investments, to creation of new working places, decrease of unemployment and other problems that are important to inhabitants.

Latvia has to continue the reform process with formation of provinces to provide, in such way, a decentralisation of authority and finance, bringing it nearer to the territories of districts. The functions that might, in the course of the reform, be delegated to the districts should be passed, constitutionally, to the new-created administrative institutions of the districts. Therefore, it should be a support for such state policy that is oriented to dismantling of ineffective centralized state administrative apparatus and diminishing of the role of central authority in the economy and to transfer of the emphasis on the second level regional self-government institutions.

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INNOVATION FOR SUSTAINABILITY: DEVELOPMENT OF RURAL TOURISM IN LATVIA

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Abstract

In the contemporary world, innovation is considered to be a key driver of economic growth, competitiveness and employment; it is also an important means for maintaining the sustainability of this development, i.e., to avoid destruction of the natural environment and exhaustion of natural resources. This is relevant not only to high-tech industries but also to all sectors and economies, including rural areas and tourism. Taking into account that global changes and current trends in the world tourism sector have determined the need to seek new solutions how to promote tourism product development and marketing, this paper focuses on innovation in the rural tourism. The aim of the study is to investigate the development of Latvia's rural tourism and the role of innovation in this process. The results of the study show that the number of rural tourism accommodations since 1994 has significantly increased and analysis of spatial distribution of rural tourism establishments in the territory of Latvia shows optimistic forecasts for the tourism potential of growth in rural areas. Current situation analysis reveals that despite the fact that in Latvia, like in many other countries, innovative activities in the tourism sector are mainly underdeveloped, there are good examples of innovative products in rural tourism.

Key words: *sustainable, innovation, rural tourism, Latvia.*

Introduction

In the recent years, global and European, *inter alia* Latvian, tourism industry has experienced major changes: the diversity and number of tourism products have continuously increased, new tourism destinations have emerged, travellers' behaviour has changed and e-commerce applications in tourism have grown. (Thessalonikis, et al. 2009: 9; Tūrisma attīstības valsts aģentūra 2010: 5) Therefore the aspects currently prioritized in

the tourism market are quality, innovation and compliance with current market trends and requirements, which are - demographic changes, changes in consumers' behaviour, safety, authenticity of offer and environmental protection. (Hjalager 2002: 465; Meneses and Teixeira 2011: 25; Sundbo et al. 2007: 88)

Many researchers (Drakopoulou 2004: 8; Toth 2002:75; MureSan 2009: 41) view sustainability of tourism, *inter alia* rural, as highly important, where most definitions of sustainability are based on three pillars: ecological, social and economic sustainability. The concept of sustainable tourism is closely linked to that of sustainable development, which was recognized for the first time in the Rio Conference in 1992. It has been argued that "...sustainable tourism refers to meeting the needs and rights of present tourists and host communities and regions, while protecting and enhancing opportunities for the future" (Bendell Font 2004: 25). According to R. Toth (Toth 2002: 75), "...sustainable tourism is about creating a balance between social, environmental, cultural and economic interests." The concept of sustainable tourism embraces three dimensions: environmental conservation, economic efficiency and social equity, as shown in Figure 1.

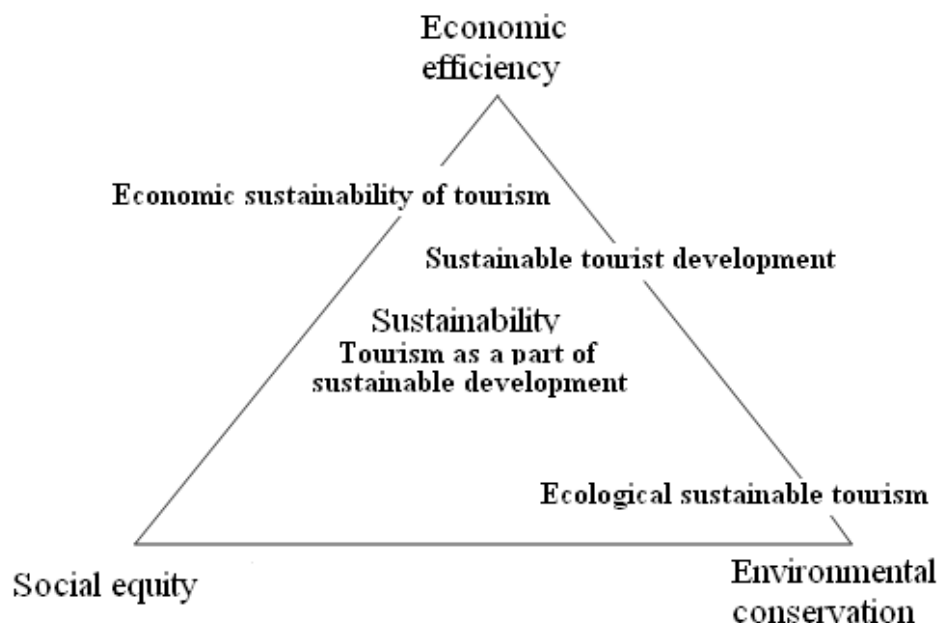


Figure 1. Three Aspects of Tourism Sustainability (Drakopoulou 2004: 9)

Sustainable tourism and ecotourism are widely recognized as a means of enhancing local development as well as protecting natural environment and traditional and cultural heritage in international resolutions. (Castellania and Sala 2010: 871) However, the common perceptions of 'rural tourism' industries are influenced by a

range of terms (such as ‘green’, ‘nature’, ‘eco-’) that position them as small-scale, low-impact activities offering an alternative to mass tourism. (Roberts and Hall 2004: 253) Their perception as ‘niche’ markets further reinforces such views (Ibid.).

It has been emphasized by many scholars that nowadays the innovation activities play more important role than before in the development of company’s performance, *inter alia*, rural tourism firms (see chapter below). The use of innovation in the tourism sector intends to increase the competitiveness of the companies through the increase of the productivity and improving quality service and/or introducing new products (e.g., customization, ICT interaction). (Ibid.: 26)

In order to achieve the set **aim** – to investigate the role of innovation in the development of rural tourism in Latvia – the following **research objectives** were attained:

- to analyze the development of rural tourism in Latvia;
- to characterize good examples of innovative solutions of rural tourism in Latvia.

The study was based on different sources of scientific literature; *inter alia*, research papers, statistical data, legislative and programmatic documents of international, European and Latvian institutions; and reports of national governmental and non-governmental institutions. To carry out the study, adequate **research methods** were used – general scientific methods (analysis and synthesis, monographic) and statistical research methods (data generalization, analysis of dynamic rows – growth rates, discovering the basic tendencies).

Innovations in Tourism

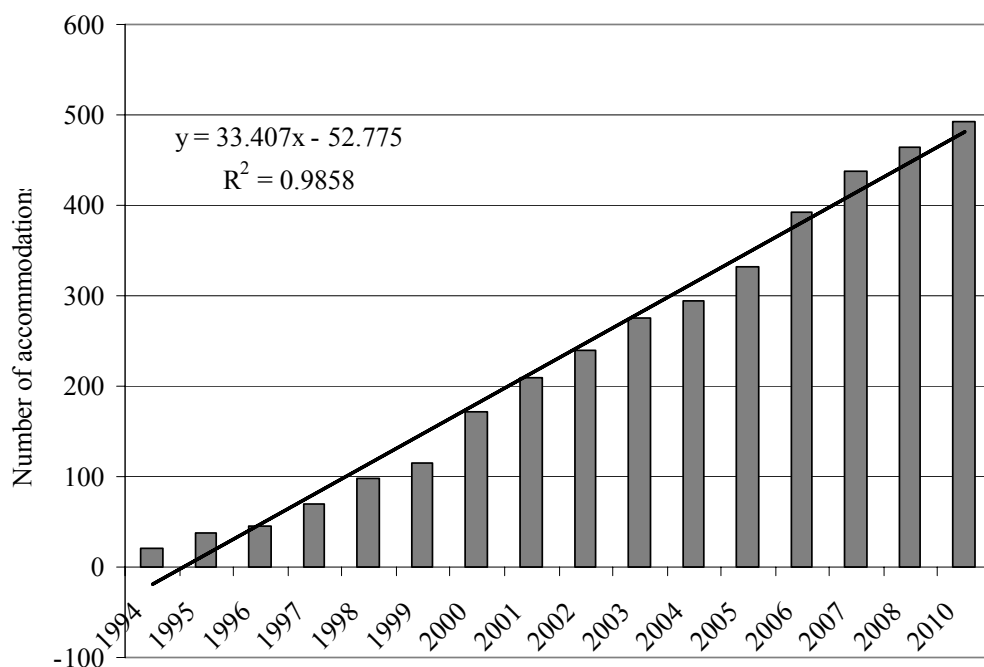
There are various definitions of the term “innovation”, which derives from the Latin “innovatio” – the creation of something new. (Weiermair 2006: 55) K. Weiermair argues that the most useful definition is that provided by the late Schumpeter who distinguished five areas in which companies can introduce innovation: 1. Generation of new or improved products; 2. Introduction of new production processes; 3. Development of new sales markets; 4. Development of new supply markets; 5. Reorganization and/or restructuring of the company (Ibid.). An innovation is the implementation of a new or significantly improved product (goods or service), or process, a new marketing method, or a new organizational method in business practices, workplace organization or external relations, where the minimum requirement for an innovation is that the product, process, marketing method or organizational method must be new to (or significantly improved for) the firm. Innovative activities are all scientific, technological, organizational, financial and commercial steps which actually do, or are intended to, lead to the implementation of innovations (OECD and EUROSTAT, 2005). A.M. Hjalager (Hjalager 2002: 466) created a model for measuring innovation levels in tourism using core competencies. The author (Ibid.) distinguishes four types of innovation: regular, niche, revolutionary and architectural. Taking into account that

tourism is a growing and an extremely competitive sector and to be competitive, tourism firms need to innovate, responding to the more and more demanding tourist. (Meneses and Teixeira 2011: 25) P. Keller (Keller 2006: 35) argues that innovation creation mechanism is information technology, which is an important production factor in tourism today, where efficient information technology infrastructure and software applications are vital factors in tourism development.

Development of Rural Tourism in Latvia

Latvia has a wide range of tourism resources – the diversity of landscape, cultural and historical heritage, and rich biological and geophysical systems. Due to dramatic decline of agricultural production, many rural inhabitants experience economic problems and development of rural tourism was one of the opportunities to survive in the countryside. At present, the rural tourism has become one of the most popular types of tourism during the last five years in Latvia. (Latvian Country Tourism Association “Lauku ceļotājs” 2004: 4) The Latvian Country (Rural) Tourism Association “Lauku ceļotājs” (hereinafter – “Lauku ceļotājs”) is a home for more than half of businesses providing rural travel services in Latvia and the analysis of information shows that the number of rural tourism accommodations since 1994 has significantly increased (Fig. 2).

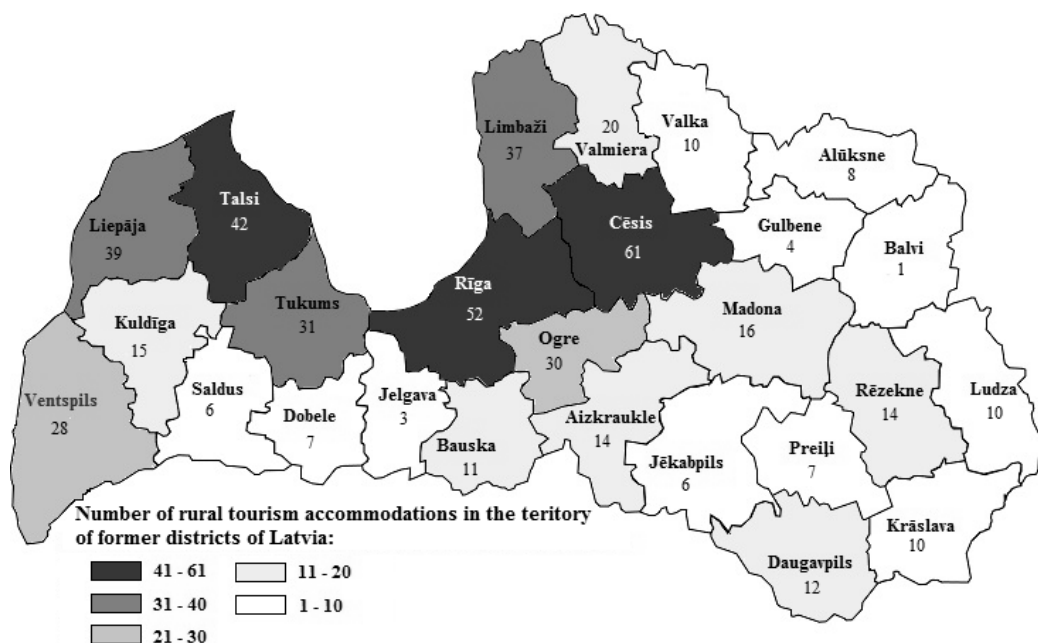
The trend of growth of accommodations’ number is significant (coefficient of correlation – $r = 0,96$; $p < 0,01$). Most of the above-mentioned accommodations are located in guest houses (42% from total rural tourism accommodations), holiday houses (31%), farmsteads (14%), campings (8%) and castles and manor houses (5%).



Source: Authors' calculations based on data from data bases of Lauku ceļotājs

Figure 2. The Trend of Number of Rural Tourism Accommodations in Latvia, 1994–2010

Currently in Latvia, rural tourism is acknowledged as one of the activities to be supported to ensure rural development. Similarly, one must consider T. Rátz and L. Puczkó (Rátz and Puczkó 1998: 1) who point out that rural tourism employs the potential to be one of the most effective tools of regional development, where the sustainable rural tourism satisfies several characteristics, where some of them are highly important, for example: support of environmental friendly agriculture; contribute to sustain cultural heritage and contribute to support the local economy. (Melece L 2008: 253) However, analysis of spatial distribution of rural tourism establishments in the territory of Latvia shows that the socio-economic activity of rural population in searching for and implementing new development initiatives is rather limited. The highest number, 65% of total rural tourism establishments are concentrated in the north-eastern part of Latvia in the Vidzeme upland – former Cēsis District – and in the coastal area – territory of former Rīga, Talsi, Limbaži, Tukums, Liepāja and Ventspils Districts. In the remaining territory of former districts, the number of active companies does not exceed 20 (Fig. 3). Such evaluation of statistical data shows optimistic forecasts of the tourism's potential of growth in rural areas.



Source: Authors' construction based on data from data bases of Lauku ceļotājs

Figure 3. Division of Rural Tourism Accommodations in the Territory of Former Districts of Latvia, 2010

However, in order to maintain the growth potential of the rural tourism, important prerequisite is innovative capacity. (Hjalager 2002: 470) Likewise, one must consider other sector's experts (Asheim and Isaksen 2002: 78; Embacher 2010: 2) who point out that first step to rural tourism success are innovative approach. Therefore in the next step of our study we have evaluated and described innovative approaches in rural tourism establishments.

Examples of Innovative Solutions in Rural Tourism in Latvia

Tourism enterprises operate in a business environment where innovation is important for their survival. (Sørensen 2007: 22) Detailed analysis of scientific literature has shown that there is a lack of studies focusing on innovation in the Latvian rural tourism. Thus, this paper can be considered as the first attempt to identify the role of innovation in the rural tourism in Latvia. Although, current situation analysis shows that despite the fact that in Latvia, like in many other countries (Keller 2006: 17; Meneses and Teixeira 2011: 25; Rønningen 2010: 16), innovative activities in the tourism industry were launched not too long ago, there are already more than few good examples of innovative rural tourism products in Latvia. "Lauku ceļotājs" lists

successful examples of innovative rural tourism products, which include: a dog sleigh rides; amusement ship in Dunte estate; wine tasting; boating in floods; botanic paths with attractive guides in the protected natural areas; thematic historic activities; open craft classes; herbal SPA treatments; military heritage; ski routes maintained by enthusiasts and hiking trails and bicycle trails around the locality.

However, in order to create an innovative product, innovative approach is an integral part of innovation process. Therefore, we have examined in detail two innovative approaches in rural tourism establishments – development of websites and tourism clusters.

Development of Rural Tourism Enterprises' Websites

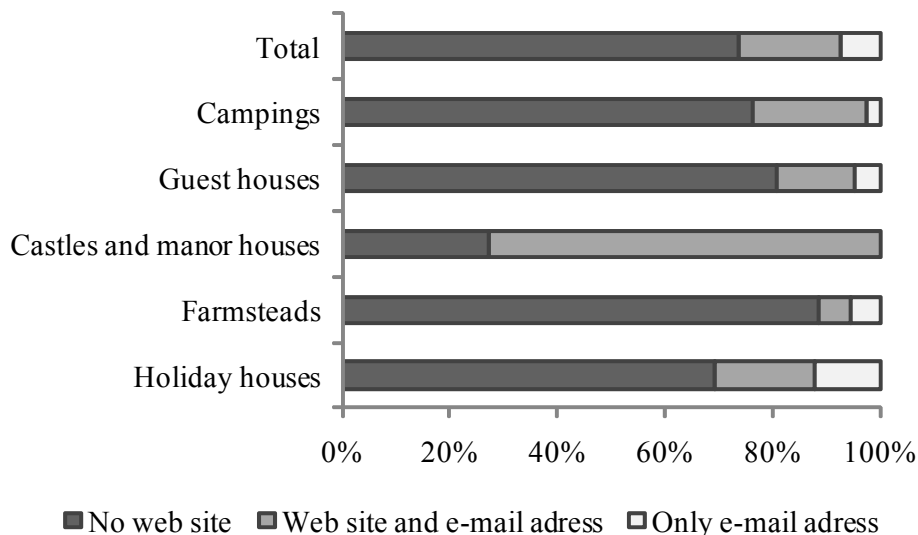
The Internet has brought about revolutionary changes in today's world and nowadays companies all over the world, large or small, strive to market their services/products through websites. Moreover, the websites have great potential for promoting regional tourism, and are relatively inexpensive compared to other promotion and advertising media. (Hannes 2010: 3; Standing and Vasudavan 2000: 45) An effective website can reach global audiences: it is accessible 24 hours a day from anywhere in the world. (Horng, Tsai 2010: 75) B. Asheim and A. Isaksen (2002) argue that being able to integrate global knowledge and networks into local innovative processes is of crucial importance, where information and communication technologies – ICT plays main role. (Hjalager 2010: 9) Some of the benefits that ICT provide to tourism businesses include: more efficient transactions, a low cost distribution chain, improved customer service through personalised services, enhanced service quality and cost reduction. (Reino et al. 2010: 66)

According to the latest Internet audience research results¹, the Internet has been used by an average of 1 123 000 or 64% of Latvian residents aged 15 to 74 years. This means that development of websites and e-marketing is a topical issue for all Latvian enterprises, including rural tourism enterprises. Many tourism enterprises are now designing websites in the hope that tourists can access information about their potential destinations by browsing them. J. S. and C. T. T. Rátz and L. Puczkó (Horng, Rátz and Puczkó 2010: 74) argue that constructing the effective tourism websites is the first step in the marketing of these destinations.

The results of research based on data from databases of “Lauku ceļotājs” have shown that rural tourism enterprises, which fall into category of small and medium sized enterprises, are following staged approaches to implementing ICT into their businesses, starting with development of websites. Results (Fig. 4) indicate that more than 40% of all rural tourism establishments have their own website on the Internet. Furthermore, most active in the development of their own website are castles and

¹ <http://www.tns.lv/?lang=lv&fullarticle=true&category=showuid&id=3389>

manors (73% of all castles and manors have a website), campings (22% of all campings have a website), holiday houses (21% of all holiday houses have a website).



Source: Authors' calculations based on data from data bases of Lauku ceļotājs

Figure 4. Frequency of Website Adoption and E-mail Usage Among Different Types of Rural Tourism Enterprises in Latvia, 2011

However, according to A.P. Davidson and S. Burgess (Davidson and Burgess 2006: 7), the main barriers for using ICT can be identified as follows: costs, lack of time, lack of knowledge and difficulty finding useful and impartial advice, lack of formal planning, and lack of understanding the benefits. Regarding benefits from website adoption, it has been evaluated that tourist companies having website have increased their revenue compared to those companies who do not have their own website. (Scaglione et al. 2009: 629)

“Lauku ceļotājs” has developed a solution allowing an entrepreneur without any specific knowledge to develop his or her own website. There is a guide available on the Internet which provides a detailed manual “How to Create Your Own Website”. In this manual entrepreneur can find recommendations about most appropriate structure and content of rural tourism enterprise website, overview of current situation in the online pricing, installation capabilities, solutions, banner prices for the most popular portals and website maintenance costs and types. This is a positive example of how small entrepreneur can introduce innovation (website) in his firm in a very simple way.

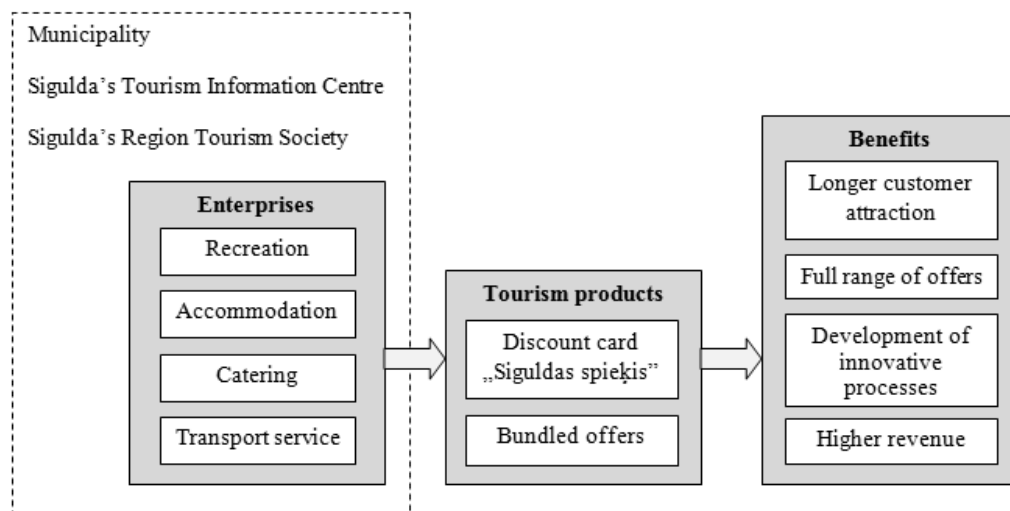
In general, frequency of website adoption and support system developed by “Lauku ceļotājs” indicate that the Latvian rural tourism establishments have become more

productive through the innovative use of ICT, which in turn can be a good basis for the development of other innovations.

Tourism Clusters

The tourist wants to have complete experiences of a tourism destination, not only the interesting tourism attraction but also comfortable accommodation and transportation, delicious culinary, etc. (Damayanti 2010: 64) Therefore formation of clusters in tourism industry has become very popular. (Doloreux et al. 2004: 2; Keller 2006: 17) According to definition by S. Rosenfeld (Rosenfeld 1997: 4), clusters are used to represent concentrations of companies, so that they can produce synergy, through their geographical proximity and their interdependence. Furthermore, some authors state that the clusters are synonymous of competitiveness given that they contribute positively to innovative processes, facilitate relations with other institutions, better enabling the consumer needs, canalizing knowledge and information need for technology development. (Ferreira and Estevão 2009: 2)

Sigulda and its vicinity is one of the most picturesque places in Latvia, therefore offering a well developed tourism infrastructure and here first signs of development of tourism clusters can be observed. Main participants of tourism cluster in Sigulda region are enterprises providing recreation and accommodation, as well as catering enterprises, transport enterprises. Most of these enterprises are members of Sigulda's Region Tourism Society, which closely cooperates with Sigulda's Tourism Information Centre and Municipality. Synergy of all these cluster participants have led to several tourism products – discount card “Siguldas spieķis” and different bundled offers, for example skiing + overnight stay + SPA services. This card can be associated with several benefits: longer customer attraction, full range offers for customers, development of innovative processes, higher revenues (Fig. 5).



Source: Authors' construction based on data from data bases of Lauku ceļotājs

Figure 5. Main Participants in the Tourism Cluster in Sigulda Region, Tourism Products and Benefits

Chairman of the Board of Sigulda's Region Tourism Society Jānis Dudko² has indicated that operation of discount card "Siguldas spieķis" is temporarily suspended because as the result of crisis a number of service providers have liquidated or have withdrawn from Sigulda's Region Tourism Society. He also indicated that several problems can be identified that hinder successful development of tourism and formation of tourism clusters:

- incompetence of officials in the field of tourism;
- lack of long-term positioning of Latvian tourism products and marketing development plan;
- lack of mutual trust and discussions between the public and private entities.

However, the operation of tourism cluster in Sigulda region can be assessed positively since it has contributed to the development of innovative tourism products – discount card "Siguldas spieķis" and different bundled offers – and has facilitated relations with other municipal institutions, like Sigulda's Tourism Information Centre and Sigulda Region Tourism Administration. The example of Sigulda case of successful implementation of clusters in the rural tourism is a proof that involvement of different actors or stakeholders in the cluster development is highly important. Thereby, further development of rural tourism mainly depends on sustainability and development of clusters, which could involve large number of rural society actors.

² Personal communication

According to the above mentioned, H. Hoarau-Heemstra (Hoarau-Heemstra 2011: 2) argues that understanding innovation in tourism requires the integration of multiple elements including people, nature, wildlife, technologies and networks across organizations.

Conclusions

- 1) Rural spaces are no longer associated purely with agricultural commodity production but are seen as locations for the stimulation of new socio-economic activity, for example, rural tourism activities.
- 2) Nowadays innovation is considered to be a key driver for economic growth, competitiveness and employment, it is also important means for maintaining the sustainability. Furthermore, this issue has become topical not only to high-tech industries but also to low-tech industries, like rural tourism.
- 3) The concept of sustainable tourism embraces three main dimensions: environmental conservation, economic efficiency and social equity.
- 4) Current analysis of Latvia's rural tourism branch shows positive development tendencies:
 - since 1994 the number of rural tourism accommodations has increased statistically significant and almost 25 times;
 - there is a wide range of rural tourism accommodations available – guest houses, holiday houses, farmsteads, campings, castles and manor houses – that offer different rural tourism options and satisfy different consumer needs;
 - spatial distribution of rural tourism establishments shows that the highest number, 65% of total rural tourism establishments are concentrated in the north-eastern part of Latvia – in the Vidzeme upland – and in the coastal area, which provides optimistic forecasts for the sector's potential of growth in rural areas.
- 5) Establishments of Latvian rural tourism have become more productive through the innovative use of ICT – more than 40% of all rural tourism establishments have their own website on the Internet, which is considered as great potential for promoting regional tourism, and is relatively inexpensive compared with other promotion and advertising media. Furthermore most active in the development of their own website are castles, manors, campings as well as holiday houses.
- 6) Current situation in tourism, *inter alia* rural, shows that tourism clusters have great development potential. Activity of tourism cluster in Sigulda region, which was analysed in this study, can be evaluated positively as it has contributed to the development of innovative tourism products (discount card “Siguldas spieķis” and different bundled offers) better satisfying the consumer needs and has facilitated relations with other municipal institutions.

- 7) Further development of rural tourism mainly depends on sustainability and development of clusters, which could involve large number of rural society actors or stakeholders.

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KNOWLEDGE-BASED SOCIETY: SUSTAINABLE DEVELOPMENT

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Abstract

The processes of creating a knowledge-based society and the knowledge economy as well as sustainable development processes are analyzed in the article.

The author concludes that the creation and development processes of the knowledge-based society and knowledge economy may be attributed to the category of global transformation and sustainable development processes and, therefore, all general phenomena and characteristics of global transformations and sustainable development in general are absolutely typical for creation and development of the knowledge-based society and knowledge economy.

The processes of creating the knowledge-based society and knowledge economy as well as modernization are analyzed in the general context of sustainable development. The author describes the main principles of creating the knowledge-based society, knowledge economy and modernization.

Creation and modernization of the knowledge-based society and knowledge economy are very complicated processes, oriented towards formation of the new quality society and qualitatively new lifestyle. These processes may be described as “twice” as complicated, because they win distinction by orientation towards pursuit of new quality in two aspects:

- the knowledge-based society and knowledge economy, compared to “traditional” society and economy, are in all cases described as qualitatively new;
- creating and development of the knowledge-based society and knowledge economy takes place under the conditions of global change, which means that qualitative changes take place in all global space, the essence of those changes is the creation and spread of the knowledge-based society and knowledge economy.

A special attention is given to the conclusion that in the environment of the knowledge-based society, the creation and generating of the knowledge economy and development, the provisions for sustainable development should be attained.

The following general conclusions are made:

- the processes of creating the knowledge-based society and generating knowledge economy as well as its further development should be understood as an undivided unity;
- the processes of creating the knowledge-based society and generating knowledge economy, as well as its further development should be perceived as relevant to all spheres of life –social, economic and political life, culture, advancement of science and technologies, interaction with nature in general and environment in particular;
- the processes of creating the knowledge-based society and generating knowledge economy as well as its further development should be comprehended as the ones providing economic preconditions for modernization of the society and refinement of its life in accordance with the standards, norms and values of the knowledge-based society;
- the processes of creating the knowledge-based society and knowledge economy as well as further development should be interpreted as multi-dimensional, extremely complex and uninterrupted process, which manifests itself in cyclical changes and leaps towards higher quality standards;
- the complex approach towards the knowledge-based society and knowledge economy creation, as well as further development should be implemented in all stages of scientific research, studies and practical activities, including the prioritizing various programs on multi- and cross-disciplinary research and studies, as well as strategic solutions of complex character in various stages of regional development, planning and designing of economic and technological leaps.

The processes of creating the knowledge-based society, knowledge economy and further development should be analyzed and assessed in the context of the priorities of sustainable development. By the knowledge-based society and knowledge economy creation and further development, harmonization should be sought in:

- the fields of various social, economic, political development, culture, advancement in science and technologies, interplay with nature and other fields;
- the environment of changes in various countries, regions or otherwise geographically or regionally defined systems;
- changes occurring in various layers in society.

The processes of creating the knowledge-based society and knowledge economy and further development should be analyzed and assessed in the context of processes of globalization and internationalization as well as processes of global transformations.

Keywords: *Knowledge society, knowledge economy, sustainable development, phenomena of sustainable development and knowledge-based society creation processes.*

Introduction

Creation and modernization of the knowledge-based society and knowledge economy as well as the processes of sustainable development are very complicated processes, oriented towards the formation of the new quality society and qualitatively new lifestyle.

A lot of new phenomena and circumstances appear under the contemporary conditions of social, economic, political development and progress of science and technologies. In order to understand and react to them, it is necessary to see into the so-called problems of the sustainable development and problems of creation of the knowledge-based society and knowledge economy, and to strive that these problems were solved adequately with the new challenges in the life of the society.

The importance and significance of problems of sustainable development are indicated by the fact that the understanding and solving of these problems is one of the main priorities implemented in contemporary practice of scientific research.

Modern attitudes towards sustainable development and its concept, as well as towards the understanding and solving of problems of sustainable development can be characterized by extremely wide *variety*. Such variety is due to the fact that the phenomena, problems and topicalities can be analyzed by:

- including *spaces of different extent* (various regions, countries or their groups, the world), as well as including *different systems* (various organizations, their groups, other systems);
- involving *different combinations of processes, phenomena, factors and circumstances of social, economical, political development, and progress of science and technologies* into the unit of developmental processes;
- giving preference to *different social, economic, ecological, technological, political as well as other manifestations, consequences or circumstances of the sustainable development*;
- regarding the *management features* of various processes of development and progress, as well as the *multiplicity of different subjects and their interests* that take place in management process.

The research of the problems of sustainable development is *multi- and interdisciplinary* by nature; they must inevitably have attitudes towards social and economic development, progress in technologies, environmental protection and changes in modern society and its life, reflecting various areas of science, integrated in them. An important aspect of the research on sustainable development is a *regional* one, since various social, economic, technological, ecological factors are assessed *in the extent of variously identified regions*, by trying to reveal the interaction of processes and changes of different nature in various regional systems herewith.

Traditional attitudes towards sustainable development emphasize the necessity to ensure “internecine” compatibility and compensation of developmental processes and

changes that have different nature. Moreover, they emphasize the priorities such as the necessity to ensure the *harmony of economic development and social changes*, the need to avoid *negative ecological consequences* that arise or may show up under the conditions of *technological progress*, the need to comprehensively protect natural resources, avoid negative impact on a person and his health, the need to orient urbanization processes and technological progress to stricter standards of ecological, social and environmental protection. (Melnikas 1990, 2002) Despite the fact that traditional attitudes towards the sustainable development are characterized by a wide variety, extensive coverage of processes and problems and considerable possibilities of practical application, it is still possible to claim that nowadays there appear many new circumstances, conditions and phenomena, the impact and role of which *insufficiently* reflect in most of the traditional attitudes. For this reason, traditional conceptions of sustainable development and its problems become more and more *inadequate* to the modern needs and challenges and require essential supplements and specifications.

It must be noted that modern attitudes towards sustainable development should deeper reflect the role and influence of *new type transformation processes* that are taking place in the world now. The most important role and influence are of those transformations, which reflect *the creation of the knowledge-based society and knowledge economy* as well as *global spread of values and ideas* of the knowledge-based society: namely the creation of the knowledge-based society and the spread of its values and ideas in the global environment, condition of new transformations in the modern society and its life and help understand the necessity *to react to the needs of sustainable development and solve new problems of the sustainable development in a new way*.

It is possible to claim that the essential *priority* of sustainable development concept actualization is the fact that the modern concept of sustainable development must reflect both the global transformation processes in general and those global transformation processes, which reflect *the creation of the knowledge-based society and knowledge economy* as well as *the spread of values and ideas of the knowledge-based society*.

It is purposeful to refer to certain theoretical attitudes, which could be used when analyzing various phenomena of the sustainable development in complex with various phenomena of the knowledge-based society and knowledge economy creation processes.

Knowledge-based Society and Knowledge Economy Creation Processes in the Context of New Challenges for Sustainable Development

Recently, the creation and development of the knowledge-based society and knowledge economy are perceived as one of the most important *priorities* of the modern society and its lifestyle development as well as of social, economic, political development, science and technological progress. The creation and development of the knowledge-based society and knowledge economy are assessed as *the most important assumption* and *the main way* to solve most of the social, economic, technological, even security and defence problems worldwide, in various countries or regions in general as well as in various countries or regions of the European Union. (Boldrin, Canova 2001; Cohendet, Stojak 2005; Currie 2000; David, Foray 2002; Dicken 1998; Ein-Dor, Myers, Raman 2004; Farnsworth 2005; Garrett, Mitchell 2001; Goeransson, Soederberg 2005; Grace, Butler 2005; Hayo, Seifert 2003; Hunt 2000; Huseman, Godman 1999; Leydesdorff 2004; McNally 1999; Melnikas 1990, 2002, 2008; Melnikas, Reichelt 2004; Merrill, Sedgwick 1997; Munasinghe, Sunkel, de Miguel 2001; Olsen, Osmundsen 2003; Parker 1998; Perraton 2001; Redding, Venables 2004; Sangmon 2002; Steinmueller 2002)

The creation of the knowledge-based society and knowledge economy expresses the *essential qualitative changes* to all the areas of social, economic, political life, science and technological progress, and interaction with nature. The creation of the knowledge-based society and knowledge economy deeply influences the content of *globalization* processes and the effect on a situation in the modern world.

The knowledge-based society and knowledge economy creation processes are perceived and assessed as an *essential worldwide transformation*, which determines a number of *breakings and sallies* important to all the humankind.

The *concepts* of the knowledge-based society and knowledge economy, as well as their creation processes are very multiple. Therefore, it is obvious that the concepts of the knowledge-based society and knowledge economy may be defined and described differently.

In order to substantiate the appropriate definitions and descriptions, it is necessary to regard the following:

- when describing a certain *society*, the underlying attention must be paid to the highlighting of *the most important values, typical of the society itself*;
- when describing a certain *economy*, the underlying attention must be paid to the highlighting of *the most important factors of the economy growth*.

Regarding the above-mentioned attitude, it is possible to claim that it is purposeful to describe the concepts of the *knowledge-based society* and *knowledge economy* as follows:

- the knowledge-based society is the society characterized by the values of the predominance of creativity and creative activity as well as values, which express the generation, spread and use of new knowledge. In the knowledge-based society, the underlying interests express the objectives to create, spread and use new products of art, technical, business and other creation, as well as initiate, generate and implement multiple creative ideas and innovations in all areas of life;
- the knowledge economy is the economy, for which the underlying growth factor is the potential, intended for generation, spread and use of new knowledge as well as the activation of creativity. The raising and possession of the abilities to create, spread and use new knowledge, ideas and innovations in all areas of life, as well as the incessant raise of the economical efficiency with the acceleration and activation means of the science and technological progress are the underlying conditions for economic growth and modernization in the knowledge economy.

The provided descriptions of the concepts reflect the main values, which express the objectives of creativity, creation activation and new knowledge generation, typical of the knowledge-based society, as well as the main features, which characterize the significance of new knowledge generation, innovation and science and technological progress, typical of the knowledge economy.

In order to describe the society and economy reasonably, it is necessary to regard the fact, that there are *internal contradictions*, which appear in every society and in every economy system, and which operate like the *propulsion stimulating the progress of the society and economy* as well as the *cause*, which determines certain *destructive processes* that can “destroy” or destabilize both the society and the economy. For example, the modern “western” type democratic society and the modern market economy are typical of various *property oriented capitalistic economy contradictions*, which may be assessed as the *essential* ones. Such *property oriented capitalistic economy contradictions*, which express the *priorities of consumption*, reflect the *preconditions for progress and perfection* (especially the preconditions for the increase of competitiveness, potential growth, modernization and effectiveness) as well as *preconditions* for the various *inadequacies* to appear for the future needs and challenges (it is obvious, that the expression for the inadequacy needs and challenges may affect the society and economy, and may determine certain “destruction” processes and condition the *needs for the essential qualitative changes*).

Highlighting of the *underlying values*, which are typical of the knowledge-based society and express the domination of creative activity, generation, spread and use of new knowledge, allows realizing that *the essential internal contradiction* of the knowledge-

based society is the *contradiction* among the society members, groups, layers and variously identified management subjects, which belong to *two different categories*:

- one category is the society members, groups, layers and subjects, who become leaders, able to initiate the creation of new knowledge, ideas and innovations, participate in multiple creations actively, intensively and productively, develop creative activity, generate, spread and efficiently use the new knowledge and ideas. The society members, groups, layers and subjects, who belong to this category, generally *take over the real management of the society* and carry out the *functions of its development and progress*. Furthermore, the creation and spread of the new knowledge, ideas and innovations generally express the *prerogative of making management decisions, especially strategic ones*;
- the other category includes the society members, groups, layers and subjects, who *lose or do not have real possibilities* to initiate the creation of new knowledge, ideas and innovations, *do not have real conditions and skills* to participate in the creation actively and intensively, to develop creative activity independently, or to generate, spread and efficiently use the new knowledge and ideas. The society members, groups, layers and subjects that belong to this category generally become just *ordinary effectors*, who have *very limited power* and only perform the *functions of effectors*, including even those areas, where huge innovation changes take place.

The above-mentioned contradiction reflects the *internal differentiation logic*, typical of the knowledge-based society, when the position of different members, groups, layers or subjects of the society is determined by the *role and place when initiating, generating, spreading and using new knowledge, ideas and innovations*. Besides, the expression of the above-mentioned contradiction is *universal*: this contradiction may be perceived as appearing in the lives of separate countries and regions, and as the one, which appears in separate groups or layers of the society, as well as the one, which may appear globally in the future.

The aforementioned contradiction reflects the meaning of those *propulsions*, which determine and will determine the *development and progress of the knowledge-based society* as well as the preconditions for various *threats and dangers* to appear, which may inevitably arise under the conditions of the knowledge-based society. It is obvious, that the *internal differentiation of the society*, which expresses *different* role and place of various society members, groups, layers and subjects when initiating, generating, spreading and using new knowledge, ideas and innovations, may manifest itself *in two ways*:

- as *propulsion*, which determines further development and progress of the knowledge-based society, because the *objectives to activate and effectuate creative processes*, when initiating, generating, spreading and using new knowledge, ideas and innovations, become the underlying *stimulus* of the

development and progress, and the *potency* activating the processes of development and progress;

- as a precondition for new *threats and dangers* to appear, because, under the conditions, when the society differentiation exceeds certain critical limits, there inevitably appear various *tendencies of destructive manner*, including the tendencies to integrate various means, based on the use of the newest science and technological progress results, into destructive processes.

The internal contradictions, typical of the knowledge-based society, influence the processes of *knowledge economy* creation and development. The underlying conditions for economic growth and modernization, typical of the knowledge economy, which include education and possession of the abilities to create, spread and use new knowledge, ideas and innovations, as well as increase economic efficiency with the acceleration and activation means of science and technological progress, may be assessed *in two ways*:

- as the *propulsion*, typical of the development and progress of the knowledge economy, which reflects the influence of the initiation, generation, spread and use of the new knowledge, ideas and innovations, as well as of the results of science and technological progress, on the growth and effectuation of the economy itself;
- as the *precondition* for new threats, dangers and risks to appear, which are characteristic of the knowledge-based society and knowledge economy and which may cause various *undesirable negative effects* of the knowledge economy development and progress, which appear or may appear in various sectors of economic life as well as in various areas of the society's life and development in general.

Besides, the perception of the importance of internal contradictions, typical of the knowledge-based society and knowledge economy, determines the necessity and needs to analyze and assess the creation, development and progress phenomena of the knowledge-based society and knowledge economy, in the context of the ideas and attitudes of the *sustainable development*. Namely, the observance of the sustainable development attitudes and the objectives to implement the ideals of the sustainable development create real preconditions for development of the knowledge-based society and creation of modern knowledge economy single-mindedly and efficiently.

Principles of the Knowledge-based Society, Knowledge Economy Creation and Modernization

For the sake of scientific cognition and purposeful management of the creation and modernization processes of the knowledge-based society and knowledge economy, it is necessary to regard the *essential principles*, which reflect *qualitative changes* in the society in general as well as in the *economic life* of the society. (Melnikas, 2002, 2008)

It must be emphasized, that the *essential principles* to be implemented under the conditions of the creation and modernization of the knowledge-based society and knowledge economy reflect the *aim* to create favourable conditions to *get synergetic effects and to use them*, as well as to create favourable circumstances to *generate new synergetic effects*. In general, it is possible to claim, that the creation and modernization processes of the knowledge-based society and knowledge economy may be assessed as the *complex expression of the synergetic effects*.

Creation and modernization of the knowledge-based society and knowledge economy are *very complicated processes, oriented towards the formation of the new quality society and qualitatively new lifestyle*. Moreover, these processes may be described as “*twice*” as complicated, because they win distinction by orientations towards the *pursuit of new quality in two aspects*:

- the knowledge-based society and knowledge economy, compared to “traditional” society and economy, are in all cases described as qualitatively new;
- creation and development of the knowledge-based society and knowledge economy takes place under the conditions of the *global changes*, which means that *qualitative changes* take place in *all global space*; the essence of those changes is the creation and spread of the knowledge-based society and knowledge economy.

Analyzing the creation possibilities and perspectives of the knowledge-based society and knowledge economy, it is purposeful to refer to the *universal principle of the “new quality creation”*. (Melnikas 2008) This principle is applied in various cases of life in all areas: this principle is suitable for the analysis of the knowledge-based society and knowledge economy coming and spread processes, typical under the conditions of modern globalization and for the political, social and economic development and progress, taking place in the globalization environment.

The universal principle of the “new quality creation” may be formulated as follows: new quality always forms itself or is formed on the basis of conjugation, when elements of different origin, which never before belonged to the same system, merge into a common interaction system. This principle expresses the abstraction and use of synergetic effect and shows, that qualitative changes always require actions and means, necessary to merge elements of different origin into a common system.

When applying the *universal principle of the “new quality creation”*, it is necessary to regard the fact, that *new quality* is always formed *as a result of the conjugation*. Besides, the *conjugation processes* may be very different and in the most general case, they may be attributed to two types: *integration processes and synthesis processes*.

Integration processes are characterized by the fact that, during the conjugation, the interacting and conjugating elements do not lose their natural important features; it means that new quality, typical of the integration result, may later be disintegrated according to the previous features of the conjugated elements (It means that the result

of integration result may later be disintegrated and the previous state, which existed before the elements merged, may be restored).

Synthesis processes are characterized by the fact that, during the conjugation, the interacting and conjugating elements lose their natural important features; it means that new quality, typical of the integration result, may not be disintegrated according to the previous features of the conjugated elements (It means that the synthesis process is created irreversibly).

An important characteristic to mention – qualitative processes based on synthesis are irreversible; meanwhile qualitative processes based in integration in certain cases may be reversible.

The perception of the essence of integration and synthesis processes, as the processes of new quality creation, allows applying the *universal principle of the “new quality creation”* quite widely when analyzing very different phenomena, including the creation of the knowledge-based society and knowledge economy. Analyzing these phenomena, it is important to assess, *to what extent* various changes, development and progress are based on the *integration* processes and *to what extent* the *synthesis* processes determine the changes.

The above-mentioned propositions reflect the essence of the *universal principle of the “new quality creation”* and allow revealing the significance of this principle when creating the knowledge-based society and knowledge economy.

It must be noted that under the creation and modernization conditions of the knowledge-based society and knowledge economy, besides the mentioned *universal principle of the “new quality creation”*, other principles are also implemented, including a very important *universal innovativeness principle*.

The universal innovativeness principle allows perceiving the *initiation, generation, spread, use and further renewal logic* of *innovations* and *new knowledge* in general. The essence of this logic lies in the fact that the processes of initiation, generation, spread, use and further renewal of innovations and new knowledge in general are treated as expression of certain *cycles* and when perceiving that *two* preconditions of these processes exist:

- generation, spread and use cycles of any innovations, new ideas and new knowledge is started by a certain subject, performing *the function of new idea or innovation generation*, which has to dispose of *creative potential*, necessary for the generation of a new idea or innovation, has to be able to use this creative potential properly and tangibly *generate* appropriate innovations, new ideas and knowledge. It must be noted, that in the course of innovation generation, new ideas and knowledge, *opposition* is usually expressed for the established attitudes, traditions, perceptions, models and stereotypes,

therefore, the *subject, carrying out the functions of generation*, may be assessed as having the *opponent* abilities;

- any innovations, new ideas or new knowledge may be tangibly spread and used in practice only in those cases when a certain *critical mass*, necessary to “accept” and assimilate *newly generated innovations, ideas and new knowledge*, is formed in an appropriate cultural, social, economic, political environment. It is also possible to claim that *critical mass* shows the environment’s ability to tolerate appropriate innovations as well as initiate, activate *change processes* and stimulate the *adaptation to changes* based on *self-regulation*.

The ability to adequately perceive the essence of the two described preconditions and of the universal innovativeness principle is a very important condition to cognize scientifically and influence purposefully the creation and modernization processes of the knowledge-based society and knowledge economy.

Summarizing the stated propositions, it is possible to note, that *universal “new quality creation” and innovativeness principles* not only allow complexly perceive the creation and modernization essence of the knowledge-based society and knowledge economy, but also reflect the possibilities to influence and manage certain development and change processes.

In turn, in order to influence and manage the creation and modernization processes of the knowledge-based society and knowledge economy single-mindedly, including the needs to implement the ideas and attitudes of the *sustainable development*, it is necessary to cognize the *phenomena*, typical for the creation, development and progress of the knowledge-based society and knowledge economy, and to perceive the *expression* peculiarities of these phenomena.

Phenomena of the Knowledge-based Society and Knowledge Economy Creation: Challenges for Sustainable Development

The processes of the creation and development of the knowledge-based society and knowledge economy are characterized by a wide *variety* and significant *phenomena*.

The creation and development of the knowledge-based society and knowledge economy may be attributed to the category of *global transformation processes*; therefore, *all general phenomena* and characteristics of *global transformations* in general, are unconditionally typical of the *creation and development of the knowledge-based society and knowledge economy*. The perception of the essence of these phenomena and their adaptation, regarding the peculiarities of the creation and development processes of the knowledge-based society and knowledge economy, allows adequately diagnose and effectively solve topical modernization problems of the society and its economic life, including the ones in the context of the *sustainable development*.

Besides the above-mentioned *general phenomena*, certain *specific phenomena* appear or may appear under the creation and development conditions of the knowledge-based society and knowledge economy.

Specific phenomena reflect *exceptional peculiarities* typical of the creation and development processes of the knowledge-based society and knowledge economy. Among such phenomena, the following should be emphasized:

- phenomena, which characterize the *continuation* of the creation and development processes of the knowledge-based society and knowledge economy, including the continuation with regard to previous forms of the society and its economic life;
- phenomena, which express the significance of *culture, mentality factors* and *efficiency of the human resources' education systems*;
- phenomena, which express *inequality* of the creation and development processes of the knowledge-based society and knowledge economy;
- phenomena, which express *globalization and internationalization circumstances* typical of the creation and development of the knowledge-based society and knowledge economy.

The continuation phenomena of the creation and development processes of the knowledge-based society and knowledge economy show that the knowledge-based society and knowledge economy may be created only under the conditions, when:

- the society itself nurtures social, economic, political, cultural and mentality *assumptions* in order to form *critical mass*, which ensures the *domination and spread of values* typical of the knowledge-based society: the knowledge-based society may be created and further developed if *high-level of creative potency and tendency to innovations* is achieved, and if this level is realized as a *sufficient start position* for further development;
- the society achieves a *very high-level of material welfare and social comfort*, which is enough to create *economic assumptions for miscellaneous sallies* for the sake of further development of the knowledge-based society and knowledge economy;
- *economic potential*, meant for the development of the knowledge-based society and knowledge economy, is created in the economic system.

The above-mentioned phenomena reflect the *tendency*, which shows the creation and further development processes of the knowledge-based society and knowledge economy, the *continuation* of previous development, progress and change processes, which took place and continue in various areas of social, economic life, science and technological progress.

The phenomena, which reflect the significance of culture and mentality systems as well as the systems of human resources' education show, that various circumstances, which influence cultural and mentality changes, as well as changes in the areas of

human resources' education, gain underlying importance under the conditions of the creation and development of the knowledge-based society and knowledge economy. Phenomena, which reflect contradictory tendencies, are especially emphasized among the above-mentioned phenomena.

One of the phenomena, reflecting contradictory tendencies, is the *phenomenon of real as well as imitational change interaction*, typical of culture and mentality. *Two different tendencies* are expressed by this phenomenon:

- a tendency, the essence of which is the *decrease* of the significance of *values, oriented towards consumption*, and the *increase* of the significance of *values, oriented towards creativeness and innovativeness*. The result of this tendency expression is that the society members, groups, layers and subjects, who prefer the *values oriented towards creativeness and innovativeness*, gradually gain more and more possibilities to create a certain *critical mass*, which is necessary to further develop the knowledge-based society and knowledge economy;
- a tendency, the essence of which is the increasing expression of *significance imitation* of *values, oriented towards creativeness and innovativeness*, inadequate to reality and typical of declarations, when virtually, the significance of those values *does not increase*, and the significance of *values oriented towards consumption increases*. This tendency partially reflects a tendency to *imitate* real preparation and maturity, typical of the modern society, to develop the knowledge-based society and knowledge economy and *declare the aims, inadequate for the reality quite gratuitously* in the area of the creation of the knowledge-based society and knowledge economy.

Another phenomenon, reflecting contradictory tendencies, is the phenomenon of efficiency increase of the human resources' education systems. This phenomenon also expresses several different tendencies:

- a tendency, which reflects the increase in the role of *human resources' education systems* and the *needs to effectuate the education of human resources*, by giving priority to the creativeness and innovativeness abilities and to the orientation towards rapid progress of science and technologies. This tendency, by nature, is adequate to the significance of the creation and development aims of the knowledge-based society and knowledge economy and reflects the need to increase the role of human resources education;
- a tendency, which reflects the spreading *tendencies to superficiality* and an increasing *imitation of modernity and high quality* in various links of human resources education. There is an increase in number of links, which are tangibly oriented to *quite a superficial*, yet "*externally*" *modern, education and calibre*. (This tendency also reflects leaning towards the artificial *prominence of formal assessments and "external" attributes*, typical of educational systems, when actually, there is not a strive for a qualitative education and calibre, especially in form of real quality knowledge as well as

creativity and innovativeness abilities, but a strive for “externally” impressive positive assessments).

- A tendency, which reflects an *increasing gap* among the links of human resources’ education, which are oriented towards tangibly *elite* education and calibre, and among links, which are oriented towards *mass* education and calibre. This tendency reflects assumptions to increase differentiation inside the society as well as differentiation among different economy sectors and different regional economy systems, and the base of differentiation being different quality of education and calibre as well as different skills, necessary to generate, spread and efficiently use new ideas and innovation in the knowledge-based society.

Phenomena, which characterize *cultural and mentality factors as well as the significance of efficiency of human resources education systems* and which reflect *contradictory* tendencies, confirm ambiguity and complexness of the creation and development processes of the knowledge-based society and knowledge economy.

Phenomena, which reflect inequality of the creation and development processes of the knowledge-based society and knowledge economy, reflect multiple tendencies of unequal changes. Among such tendencies, the following ones should be emphasized, which show:

- *inequality* of the creation and development processes of the knowledge-based society and knowledge economy *in different countries and regions*;
- *inequality of different nature social, economic, technological and other processes*, which characterize the creation and development processes of the knowledge-based society and knowledge economy in separate countries or regional systems, as well as in separate sectors of the social economic life and progress of science and technologies;
- creation *inequality* of social, economic, political, juridical, cultural, mentality, technological and other assumptions, which are necessary for the creation and development processes of the knowledge-based society and knowledge economy.

The above-mentioned tendencies, which show inequalities of the creation and development processes of the knowledge-based society and knowledge economy, may be assessed in two ways:

- as the ones, which reveal the *need* to pay underlying attention to *sustainable development* under the conditions of the creation and development processes of the knowledge-based society and knowledge economy;
- as the ones, which reveal various *threats and dangers*, which may be caused by various *development and change inequalities*, under the conditions of the creation and development processes of the knowledge-based society and knowledge economy.

Besides, development and change inequalities and their expression, which appear under the conditions of the creation and development of the knowledge based society and knowledge economy, are also greatly determined by those circumstances, which are attributed to the circumstances' category of *globalization and internationalization* processes.

Phenomena, which reflect the globalization and internationalization circumstances, necessary for the creation and development of the knowledge-based society and knowledge economy show that the creation and development processes of the knowledge-based society and knowledge economy, as a unit, have very clearly expressed internationalism and may be assessed as a very important part of globalization processes. The following ones are considered as very important:

- a phenomenon, which expresses the spread of the creation and development processes of the knowledge-based society and knowledge economy in the extent of *global spaces*;
- a phenomenon, which expresses possibilities to create and develop a *nuclei* of the knowledge-based society and knowledge economy in various *spaces and environments* globally;
- a phenomenon, which expresses *increasing mobility and free movement* of human resources, capital, informational and other resources, which participate in the creation and development of the knowledge based society and knowledge economy *globally*;
- a phenomenon, which expresses the role increase of *multicultural and intercultural competencies* and information exchange, reacting to new conditions when creating and developing the knowledge-based society and knowledge economy under globalization conditions;
- a phenomenon, which reflects the need to develop international cooperation when creating the knowledge-based society and knowledge economy.

Regarding the fact, that the creation and development processes of the knowledge-based society and knowledge economy, especially under the conditions of globalization and internationalization activation, have increasing variety, it is possible to claim, that the described phenomena allow cognizing and assessing the appropriate phenomena *just partially*. It should also be emphasized, that namely the described phenomena, as a unit, allow making a *complex picture* about the situation in the creation and development of the knowledge-based society and knowledge economy, as well as about the perspective of changes.

It must be noted that the described phenomena reflect the problems of *sustainable development*, which inevitably appear under the creation and development conditions of the knowledge-based society and knowledge economy and allow highlighting and reasoning the *priorities* of solving these problems.

Conclusions

- 1) The knowledge-based society and knowledge economy creation is an important priority of the social, economic and technological changes and development processes in the European Union. The processes of creation of the knowledge-based society and generating knowledge economy and its further development should be understood as *an undivided unity*:
 - the processes of creation of the knowledge-based society and generating knowledge economy and its further development should be perceived as relevant to *all* spheres of life – meaning social, economic, and political life, culture, advancement of science and technologies and their advancement, interaction with nature in general and environment in particular;
 - the processes of creation of the knowledge-based society and generating knowledge economy and its further development should be comprehended as the ones providing *economic preconditions* for modernization of the society and refinement of its life in accordance with the standards, norms and values of the knowledge-based society;
 - the processes of creation of the knowledge-based society and generating knowledge economy and its further development should be interpreted as multi-dimensional, extremely complex and uninterrupted process which manifests itself in *cyclical changes and leaps towards higher quality standards, the complex approach* towards knowledge-based society and generating knowledge economy. Its further development should be implemented in *all* stages of scientific research, studies and practical activities, including prioritizing various programs on multi- and cross-disciplinary research and studies as well as strategic solutions of complex character in various stages.
- 2) The knowledge-based society and knowledge economy creation processes could be analyzed in the context of *the ideas of sustainable development*: the processes of the creation and development of the knowledge-based society and knowledge economy may be attributed to the category of *global transformation and sustainable development processes*, therefore, all general phenomena and characteristics of global transformations and sustainable development in general, are unconditionally typical of the creation and development of the knowledge-based society and knowledge economy.

By creating the knowledge-based society and generating knowledge economy and its further development, *harmonization* should be sought in the following:

- in the fields of various social, economic, political development, culture, advancement in science and technologies, interplay with nature and other fields;

- in the environment of changes in various countries, regions or otherwise geographically or regionally defined systems;
 - in changes occurring in various layers in society.
- 3) Creation and modernization of the knowledge-based society and knowledge economy are *very complicated processes, oriented towards the formation of the new quality society and qualitatively new lifestyle*. Moreover, these processes may be described as “*twice*” as complicated, because they win distinction by orientations towards the *pursuit of new quality in two aspects*:
- the knowledge-based society and knowledge economy, compared to “traditional” society and economy, are in all cases described as qualitatively new;
 - creation and development of the knowledge-based society and knowledge economy takes place under the conditions of the *global changes*, which means that *qualitative changes* take place *in all global space* and the essence of those changes is the creation and spread of the knowledge-based society and knowledge economy.
- 4) Analyzing the creation possibilities and perspectives of the knowledge-based society and knowledge economy, it is purposeful to refer to the *universal principle of the “new quality creation”*. This principle expresses the abstraction and use of *synergetic effect* and shows, that *qualitative changes* always require actions and means, necessary to *merge elements of different origin into a common system*.

The new quality is always formed as a result of the conjugation: the conjugation processes may be very different and in the most general case, they may be attributed to two types – integration processes and synthesis processes. Besides, the universal principle of the “new quality creation”, other principles are also implemented, including a very important universal innovativeness principle, which allows perceiving the initiation, generation, spread, use and further renewal logic of innovations and new knowledge in general. The essence of this logic is that the processes of initiation, generation, spread, use and further renewal of innovations and new knowledge in general are treated as expression of certain cycles and when perceiving that two preconditions of these processes exist:

- generation, spread and use cycles of any innovations, new ideas and new knowledge is started by a certain subject, performing *the function of new idea or innovation generation*, which has to dispose of *creative potential*, necessary for the generation of a new idea or innovation, has to be able to use this creative potential properly and tangibly *generate* appropriate innovations, new ideas and knowledge. It must be noted that in the course of generation of innovations, new ideas and knowledge, *opposition* is usually expressed for the established attitudes, traditions, perceptions, models and stereotypes, therefore, the *subject, carrying out the functions of generation*, may be assessed as having the *opponent* abilities;

- any innovations, new ideas or new knowledge may be tangibly spread and used in practice only in those cases when a certain *critical mass*, necessary to “accept” and assimilate *newly generated innovations, ideas and new knowledge*, is formed in an appropriate cultural, social, economic, political environment. It is also possible to claim that *critical mass* shows the environment’s ability to tolerate appropriate innovations and initiate as well as activate *change processes* and stimulate the *adaptation to changes* based on *self-regulation*.

5) *Universal “new quality creation” and innovativeness principles* not only allow complexly perceive the creation and modernization essence of the knowledge-based society and knowledge economy, but also reflect the possibilities to influence and manage certain development and change processes. In order to influence and manage the creation and modernization processes of the knowledge-based society and knowledge economy single-mindedly, including the needs to implement the ideas and attitudes of the *sustainable development*, it is necessary to cognize the *phenomena*, typical of the creation, development and progress of the knowledge-based society and knowledge economy, and to perceive the *expression peculiarities* of these phenomena.

The creation and development processes of the knowledge-based society and knowledge economy may be attributed to the category of *global transformation processes*, therefore, *all general phenomena*, and characteristic of *global transformations* in general, are unconditionally typical of the *creation and development of the knowledge-based society and knowledge economy*.

Specific phenomena reflect *exceptional peculiarities* typical of the creation and development processes of the knowledge-based society and knowledge economy. Among such phenomena, the following should be emphasized:

- phenomena, which characterize the *continuation* of the creation and development processes of the knowledge-based society and knowledge economy, including the continuation with regard to previous forms of the society and its economic life;
- phenomena, which express the significance of *culture and mentality factors* and *efficiency of the human resources education systems*;
- phenomena, which express *inequality* of the creation and development processes of the knowledge-based society and knowledge economy;
- phenomena, which express *globalization and internationalization circumstances* typical of the creation and development of the knowledge-based society and knowledge economy.

6) The research of the problems of sustainable development as well as the problems of creation of the knowledge-based society and knowledge economy is *multi- and interdisciplinary* by nature, they must inevitably have attitudes to social and economic development, progress in technologies, environmental protection and

changes in the modern society and its life, which reflect various areas of science, integrated in them. An important aspect of the research on sustainable development as well as on creation of the knowledge-based society and knowledge economy is a *regional* one, since various social, economic, technological, ecological factors are assessed *in the extent of variously identified regions*, by trying to reveal the interaction of processes and changes of different nature in various regional systems herewith.

The processes of creation of the knowledge-based society and generating knowledge economy and its further development should be analyzed and assessed in the context of *processes of globalization and internationalization*. The new priorities for *development of international cooperation* and *priorities for improving international management* show that:

- the development of international cooperation and improvement of international management should be based upon promotion and practical application of the *ideas, patterns and technologies of networking*;
- within international management, a key trend should dominate oriented towards activation and promotion of *creativity, innovation and entrepreneurship* as well as towards the implementation of the ideas of *sustainable development and harmony*.

In all chains of human resource training the means should be implemented oriented towards adequate response to the emerging needs to consecutively solve the problems of sustainable development, elaboration of international management and activation of international cooperation manifesting them in the context of creation of the knowledge-based society and generating knowledge economy as well as its further development.

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KNOWLEDGE AND CREATIVITY AS A DRIVING FORCE FOR THE INNOVATION ECONOMY

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Abstract

Nowadays information technologies evolve rapidly, globalization processes increase. To develop national economy successfully according to the trends of the new age, it is important to apprise them from the theoretical and practical point of view. The article gives an interpretation of the notions 'creative economy' and 'creative industries'. It shows that the key factor for the development of the creative economy is an educated, competent and creative individual, and his/her ability to create and use knowledge effectively under the constantly changing circumstances. The analysis proves that in Latvia an important problem for economic development is the low level of knowledge, innovation and ineffective use of human resources. The analysis shows that creativity must be developed already since childhood. The research carried out by the authors and exhaustive analysis of the inquiry results lead to the conclusion that currently in Latvia learning is more targeted at the acquisition of knowledge rather than development of creative thinking in students. To encourage faster development of creative economy in Latvia, several possible solutions are offered and courses for further research are marked.

Keywords: *structural changes of economy, innovation economy, creative economy, innovation, creative industries, creative thinking.*

Introduction

Increase in welfare of any country is an important precondition to ensure the sustainable economic development and promotion of national competitiveness. Nowadays it can be achieved by advancement of the innovation-based economy. The aim of the article is to draft the theoretical aspects of the development of creative economy and to study the situation regarding the development of creative thinking of students in Latvia compared to other European Union (EU) countries.

To reach the aim, the following tasks have been set:

- to study the challenges of the new era; new thinking paradigm and factors contributing to its development;
- to study the students' assessment about the possibilities to develop creative thinking at school, comparing to teachers' assessment and to discover mutual relations;
- to reveal problems and to propose possible solutions based on the performed analysis.

Relevant literature, publications and survey data about the development of creative thinking of students in the education system was used in the research (number of respondents: 2 231 students and 606 teachers) performed within the framework of the international project "Enterprising Education in Sweden, Estonia, Latvia and Finland of Central Baltic. INTERREG IV, a Programme 2007–2013". The survey was performed using the questionnaire drafted in Sweden. Data processing was done by using software *SPSS* and *MS Excel*. Answering in the survey was differential, thus allowed to obtain additional information about every given question. (Bikse, Lancmane 2010) The survey was performed in September 2009 and it was carried out in 4 countries among **students and teachers**. **The overall aim of the project** was to change the attitude of the society towards more entrepreneurial thinking to make the Baltic Sea region more competitive.

New Thinking Paradigm

Restoration of the growth of national economy in Latvia requires new thinking, necessity to learn from the past experience and the ability to look in the future. Politicians look for new directions to restore national economy, to carry out economic reforms and a stabilization plan; however, the society criticizes these plans and requires clear and constructive actions from the government. Yet there are no unequivocal solutions, because the solutions that fitted yesterday are no longer applicable today and in the nearest future. It is based on the changing needs of consumers in the consumption-driven economy and the rapid development of technologies. The global world not only offers new possibilities for meeting these

needs, but also forms the basis for the new demand by offering to satisfy yet unidentified needs.

Accordingly, the structure of national economy is changing. Production was dominant in the last century while nowadays production units are transferred to the developing countries, where enterprises can ensure lower costs, but services take a bigger proportion of GDP of the developed countries. Furthermore, the basis and a driving force of economic development is innovation emerging from creativity. Knowledge itself does not create value. Only the application of the knowledge, i.e., creation of new products, new technologies and new approaches to the enterprise and society can assure further economic development.

In innovation-based economy both agrarian and production sectors have to function not only effectively, but they also have to be innovative, because it is always necessary to follow new technologies, new possibilities and to offer new and improved products in the market. The life cycle of products decreases, the enterprises compete mutually to penetrate the market with new products and their improved versions and to create new technologies that make production processes more effective and qualitative.

The consumers have also become more demanding, because in the 21st century not only the functionality and quality of products are important, but also feelings, emotions and consumers' sense of comfort. Industries form around specific needs and products (goods, services) – enterprises offer products that can satisfy those needs. Therefore it is important to study not only the needs people have to satisfy today, but it is even more important to determine or create needs which people will want to satisfy in the future. For that reason also the governmental policy makers have to think not only at the level of national economy sectors, but also analyze industry (demand) development tendencies – which are the fastest growing industries and what supportive environment should be created in the country for these industries to develop.

Production of goods nowadays is not possible without services from the enterprises of the design industry; besides, the Internet environment creates high demand for services of the programming industry, advertising industry, music industry, design industry, etc.

The same changes are apparent in the formation of the governmental policy. The attitude towards the economy sectors of the governmental policy should be neutral, i.e., one sector should not be given preference at the expense of other sectors, because they often cover and supplement each other. The creation of clusters not only in the territory of the country, but also in the broader region becomes an important governmental priority.

Cluster-based economic strategy states different policy priorities that are targeted at the promotion of cooperation among enterprises by developing the necessary infrastructure and support structure, thus creating the effect of synergy. Cooperation

not only at the governmental, but also at the regional level becomes a key factor for economic development.

Unfortunately, the accessible statistical data about processes in the economy do not fit the changing economic needs. For the time being, statistical record keeping does not fully reflect those changes. It means that we cannot have a *fresh look* at the national economy. If this question is not considered, policy makers can be deluded about the real processes in the economy. If economists take the statistical data as the basis for process data analysis and give a prognosis for the future, the concept of the processes in economy is corrupt. Accessible data about processes in the service sector comparing to the production sector are not sufficient at this moment, because the statistical record keeping does not reflect the changes in the economy – the increasing dominance of the service sector over the production sector. To think about the future, we have to observe, analyze, forecast, how technologies and, accordingly, how people's needs will develop, which needs will have to be satisfied and where is Latvia's niche – the development potential. Of course, the production should be developed, but the development and export of services should also be facilitated. More global outlook is needed to see the development potential of the service sector, for example, logistics, transporting, IT&T, financial sector, etc.

In 2008 and 2010, the United Nations published the Creative Economy Report 2008 and Creative Economy Report 2010. (Creative Economy Report 2008, Creative Economy Report 2010) The results of the research show that creative industries and their role in the world have been constantly growing. Creative industries are “activities that are based on creative actions, skills and talent of an individual, and that have a potential to create a high added value by creating and using of the intellectual property”. (Valsts kultūrpolitikas vadlīnijas 2006: 25) They include architecture, advertising, art and culture industries, design (including fashion, graphical design and applied art), movies, computer games, interactive software, music, new media, publishing, radio and television, etc. Production in creative industries is a complicated process. It starts as an interaction and cooperation of public, private and non-governmental sector in the full cycle of the creation of the idea, implementation and publishing. (Latvijas nacionālais attīstības plāns 2006: 21) The uniting force of the creative industries is the originality of authors' ideas that can be protected by copyrights. For example, the work of a movie, music, advertisement, architecture and design industry starts with the copyright work requiring a high creation potential. Creative economy includes economic, cultural and social aspects in interaction with technological, intellectual property and tourism objects. In these circumstances the cooperation among enterprises and culture sector – *collaborative innovations* and the role of open innovations in the promotion of economic growth increase. That means that this time not only obtaining knowledge is required, but also new skills and competences and development of creative thinking.

The cooperation between enterprises, culture sector and educational sector is a key factor of the creative economy. The role of the *collaborative innovations* and open innovations in the economic development increases. As it was stated before, this time requires not only obtaining huge amounts of knowledge, but also additional skills and competences. As regards higher education institutions, they have to change, because graduates with only theoretical knowledge are not competitive in the market. Therefore, at the moment, the higher education system in Europe goes through reforms that include defining of the study results, determining what knowledge, skills and competences students should acquire during their study time. The question of life-long learning is topical – the society that learns should be created. The main value of the society is not material welfare, but spiritual values, culture, moral, and unity of the society.

In literature, the origins of the concept *creative industries* date back to the 90s of the 20th century. The term *creative industries*, first, was used in Australia and it included all industries that were based on creativity and that produce intellectual property, later it was limited to the industries, that are based on the artistry or culture.

Yet more remarkable influence on the development of the concept was its use in the policy planning documents after the victory of the Labour Party in the elections in 1997 in the United Kingdom, thus replacing the previously used term '*culture industries*'¹ with *creative industries*. (Galloway, Dunlop 2007:15-29) Therefore the development of this concept had a political rather than academic base, however, gradually researchers from different science sectors have addressed this question, thus creating remarkable academic and scientific contribution. Yet so far there is no common opinion regarding the industries which should be included in the category of creative industries, in addition, such terms as *culture industries*, *copyright industries* and *intellectual property industries*, etc., are being used.

As the time went by, the concept of creative industries got wide sympathies in the developed countries with a traditional support to culture (Garnham 2005, 17-23), both among policy planners and scientists, still, as stated before, till this very moment there is not an overall agreement about the unified understanding of this concept. Notwithstanding the diversity of used terms and a lack of united definition, most of the authors agree on the increase in significance of the above-mentioned industries in the last decades. It has been facilitated by such factors as increase in the society's

¹ For the first time the term 'culture industries' was academically used in 1947 when the philosophers of the Frankfurt School *T. Adorno* and *M. Horkheimer* described mass culture products and processes of the late capitalism in the book "*Dialektik der Aufklärung*" ("Enlightenment Didactics"). In the United Kingdom this term became popular again in the 80s of the 20th century, when professor *N. Garnham* used it in the research made by the order of the London's regional administration (in the time of Conservative Party governance). This research stated the necessity to reduce the funding for the culture sector and stressed that most satisfaction of human need for culture is done in the market not in the government-funded sector of art (Galloway & Dunlop, 2007).

welfare that drives the overall consumption, therefore allows to satisfy needs for self-realization and self-expression and the development of IT technologies, telecommunication, that forms the technological basis for creative industries and globalization, and that in its turn creates global approach to the markets both in terms of resources and demand. (Potts, Cunningham 2008: 233-247)

New tendencies in economy set much higher demands for the entrepreneurs in conduct of their businesses, by attraction of knowing and competent workers, open enterprise culture and assurance of the creativity-enhancing environment. In Latvia the accessible information shows that only 17% of the enterprises are innovative. It is a very small number. The research carried out within the framework of the Global Entrepreneurship Monitoring shows that the orientation towards innovation among young entrepreneurs in Latvia decreases.

Research Results

Under the circumstances of economic crisis and unemployment, it was found that our specialists are educated, but they lack initiative for development and realization of business ideas by setting up an enterprise or becoming self-employed. In Latvia respondents state that the main obstacle for starting a private business is the lack of knowledge, skills and the lack of entrepreneurial attitude. In addition, according to the *Global Entrepreneurship Monitor 2007–2009*, only 26% of respondents say that the school has helped them (it was 38% in the previous research). It is one of the lowest scores in the EU. (Flash Eurobarometer on Entrepreneurship 2007; 2009)

“Creativity is a process in which the original ideas are generated”. (Creative Economy Report 2008, Bikse, Lancmane 2010) Creativity is hereditary or consummate ability of the person to create original images. (Informatīvais ziņojums par radošo industriju attīstību Latvijā, Creative Economy Report 2008) Creativity cannot be thought, it can only be developed protractedly.

In order to live and act under the circumstances of creative economy nowadays, creativity (creative thinking) has to be developed since childhood in the whole learning process. A child has to get certain freedom for the development of its spirit and talent. He/she should be allowed to do different jobs, to develop the skills at the highest level. It is important to facilitate the development of creativity skills in various forms.

In this context students were asked: “Do I come up with my own ideas on the tasks that are assigned at school,” while teachers were asked: “Do I let students to express their ideas at lessons”.

Answers were marked from 1 to 5 where: 1. I don't know; 2. Very little; 3. Sometimes; 4. Very often; 5. Always.

The answers are summarized in Tables 1 and 2.

Table 1

Answers of Students and Teachers about Expressing Ideas in the Lessons

*Answers of students: I come up with my own ideas on the tasks that are assigned at school; answers of teachers about letting students express their ideas in lessons
(% out of the total number of respondents)*

| Evaluation | Latvia | | Sweden | |
|--------------|----------|----------|----------|----------|
| | Students | Teachers | Students | Teachers |
| I don't know | 10,9 | 1,0 | 6,9 | 1,4 |
| Very little | 22,2 | 4,5 | 20,5 | 7,0 |
| Sometimes | 39,1 | 17,2 | 44,0 | 25,4 |
| Very often | 21,6 | 46,6 | 20,8 | 52,1 |
| Always | 6,2 | 30,7 | 7,8 | 14,1 |
| | 100,0 | 100,0 | 100,0 | 100,0 |

Table 2

Answers of Students and Teachers about Expressing Ideas in the Lessons

*Answers of students: I come up with my own ideas on the tasks that are assigned at school; answers of teachers about letting pupils express their ideas in lessons
(% out of the total number of respondents)*

| Evaluation | Estonia | | Finland | |
|--------------|----------|----------|----------|----------|
| | Students | Teachers | Students | Teachers |
| I don't know | 4,0 | 4,0 | 11,5 | x |
| Very little | 16,8 | 6,0 | 23,1 | x |
| Sometimes | 38,1 | 31,0 | 35,9 | 11,1 |
| Very often | 26,7 | 41,0 | 20,5 | 72,2 |
| Always | 14,4 | 18,0 | 9,0 | 16,7 |
| | 100,0 | 100,0 | 100,0 | 100,0 |

Answers of students from Latvia and Sweden are very close in all evaluations (see Table 1). Students from Finland are more critical. There are more students who confess that they sometimes have their own ideas to solve tasks (see Table 2). It can be concluded that students could be more creative.

Teachers from Latvia (77,3%) and Finland (87,9%) give more freedom to students to express ideas. But if answers of respondents of all participating countries (students and teachers) are compared, it can be concluded that there is a big difference in positive answers. There are significantly less positive answers of students and it shows that they have their own ideas contrary to the percentage of teachers who allow students to express their ideas in the lessons.

It is interesting to compare the comments from the students about their attitude towards the expression of ideas. Many write that they have lots of interesting ideas on how to organize an excursion, social events at school, that they express their ideas in lessons actively, if they are convinced, that the ideas are good and interesting. Some express ideas only if a teacher asks or if they disagree to what the teacher says.

There are students who write – they are not active, they don't have ideas, they don't like tasks at school, and they do the things that are given by the teacher: "If I like the task and I know, what to say, I share my ideas. Our teachers don't like to listen to students' ideas".

Answers of pupils in the research regarding the promotion of creativity are very similar to the conclusions made in 2001 after debates-competition that involved secondary school pupils and were devoted to the topics of economics and business. In this research a conclusion was made that the present system of education does not encourage creative thinking and resoluteness of pupils due to the following factors:

- studies are aimed at the acquisition of knowledge, not creativity;
- reduced financial support to the interest-related education institutions, including schools of arts, music and sports also decrease creativity in education;
- promotion of creative thinking is hindered by excessive work load and the poor pay of teachers. (Daily newspaper "Neatkarīgā", 7 December, 2009)

The role of the teacher in developing students' creativity can be concluded from the answers to the question: "Do teachers give freedom to students to decide and plan tasks in the study process." The positive answers were given by less than a half of the teachers in all countries. The distribution of the evaluation "very often" in the surveyed countries is as follows: Latvia – 26,4%; Sweden – 49,3%; Estonia – 24%; Finland – 29,4%. Only Swedish teachers (almost half of the respondents) give students more freedom to choose how to plan their studies. In Latvia teachers wrote in the comments that they allow students to express their thoughts about various aspects of the study process, discuss, and that they take students' opinion in consideration. Other teachers wrote that they plan lessons themselves, but they like to improvise, in this way encouraging creativity in lessons.

It is possible to conclude that, in order to promote creativity in students, it is important not only to encourage them to express their ideas in the lessons, but also deliberately urge to seek new, creative ideas and express them. Important tool for idea creation is group work and team work, for example, using brainstorming, because more ideas can

be created in the group than individually. There is a higher likelihood that attitude and values change, when participating in the group work.

To encourage participation of the students in the planning of the study process, question-asking method could be used: students are asked to write questions that they would like to ask about a certain topic, the best ideas can be included in the further study process.

To encourage creativity of individuals, it is important to urge them to look for creative ideas by involving in various practical activities, for example, setting up students' enterprises. Answers of the respondents show that only a small number (17,3% of respondents in Latvia) of students is involved in setting up a training enterprise even though the wish of students to set up their enterprise is relatively high. The answers "very often" and "always" are provided by 71,2% of all respondents. This is a good tendency and matches the challenges of the new era.

It means that these positive tendencies are to be taken into consideration seriously in the process of business education. They should be strengthened by creating a possibility to obtain necessary knowledge, abilities and skills, to transfer ideas into real actions. It is important not only to teach, but also to strengthen the belief in one's own skills, to give confidence that an individual is capable to realize his/her idea, set up an enterprise, successfully manage it and link further carrier with entrepreneurship. If a student believes that he/she has the necessary abilities and will be confident about his/her skills, it will encourage students to put all their efforts in reaching the goal. And the bigger the belief in one's abilities to set up an enterprise and become an entrepreneur, the higher the motivation to reach that goal.

This problem is characteristic not only of Latvia, but also of the rest of Europe. "As we emerge from crisis in the teeth of fierce global competition, we face an innovation emergency. If we do not transform Europe into an Innovation Union, our economies will wither further on while ideas and talents go to waste. Innovation is the key to building sustainable growth, prospective and greener societies. Substantial changes to Europe's innovation performance are the only way to create lasting and well-paid jobs that withstand the pressures of globalization," states Máire Geoghegan-Quinn, Commissioner for Research, Innovation and Science and Antonio Tajani, Vice-President responsible for Industry and Entrepreneurship. The European Innovation Scoreboard stresses that "... all forms of innovation are to be supported and an increasing emphasis should be placed on the formation of expanded innovation strategy – from prioritizing the positioning of the exclusive technology innovation to demand and consumer-centred innovation".

Conclusions

- 1) There is a significant distinction between students' and teachers' answers in all countries regarding positive answers. Considerably fewer students (Latvia 27,6%) consider that they have their ideas in comparison to teachers' (77,3%) perception.
- 2) It is possible to conclude that in order to promote the creativity of the youth, they should be not only to encouraged to express their ideas, but they should also be deliberately stimulated to search for new, creative ideas, voice them and put them into practice.

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THE FACTORAL ANALYSIS OF PROCESSES OF MERGERS AND ABSORPTION IN LATVIA

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Abstract

In this paper we study M & A deals in Latvia in terms of structural changes in economy and law reform, active participation of Latvian and international companies in the domestic market and the role they play in shaping economic development. By means of statistical methods of data processing was compiled base of M & A and identified influencing factors. The study allowed determining the proportion of the participation of other countries in the Latvian economy, defining the industry deals in recent years, a gradation in terms of turnover and the dynamics of financial companies, taking into account the impact of mergers and acquisitions.

Keywords: *mergers and acquisitions, restructuring, motives transactions, statistical analysis.*

Introduction

The urgency of a theme of research determines the fact, that in conditions of structural changes of economy of Latvia, reforming of the legislation, activity of participation of the Latvian and international companies in a home market plays the important role in formation of process of economic development of the country.

Involving in process of mergers and absorption of the increasing amount of participants demands the careful analysis of the given segment of business. Transactions on mergers and absorption are one of the major elements of strategy of dynamically developing companies. Today, when the world surrounding us varies

with huge speed when an era of system innovations has come which became an integral part of a life of people and any proceeding processes, well planned transaction on merge and absorption is a key moment on a way to success, and in some cases and a condition of a survival of dynamically developing company. And on the contrary, badly planned merge or absorption is capable not only to do much harm to a firm, but also to serve as the reason of its destruction.

The purpose of the present work is the analysis of transactions of mergers and absorption in economy of Latvia for last years and an estimation of their influence on development of business in Latvia.

Motives of mergers and absorption in economy of Latvia

In aspiration to adapt to quickly varying environment in conditions of global economy of the enterprise more often there resort to such tools, as mergers and absorption.

According to the legislation of Latvia merge is understood as a process at which two or several societies (attached societies) transfer all property to a newly founded society (a getting society). (The Commercial Law, 2000)

Accordingly merge is a transfer of economic authority above resources of two and more subjects to the new economic subject during reorganization of corporation. Absorption is considered the termination of economic authority of one or several subjects with its transfer to the third economic subject.

Correct, precise definition such as the forthcoming transaction is one of the basic questions for the company with a view of increase of efficiency of the given transaction and its competent end. Therefore there is a necessity of disclosing of a question of transactions of mergers and absorption classification.

Horizontal mergers (horizontal merger) – represent the companies association of one branch which is making the same product or carrying out the same stages of a manufacture. Companies – competitors are frequently united at horizontal mergers, strengthening of a market authority of a newly founded company becomes the result of association process. Thus, in connection with possible occurrence of influence on an economic situation in the market, influence on a market price, steadfast attention on the part of antimonopoly bodies exists to similar mergers.

At horizontal structure it is possible to achieve the maximal effect of reduction in operational costs. It is more favorable to large players to buy already existing capacities in regions together with their share of the market, than to waste time on construction of new factories.

The association of two building companies “Re&Re” and “Latvijas Ceļu būve” in 2009 is an example of horizontal merge in Latvia. Construction, reconstruction and dismantle of buildings is the primary activity of “Re&Re”, in turn “Latvijas Ceļu

būve” is engaged in construction, reconstruction and maintenance of roads in the Latvian territory. “Re&Re” has got 70% of shares of the capital “Latvijas Ceļu būve”.

Vertical mergers – are associations of the companies working in different branches and representing a uniform technological chain, thus have mutual relations of the buyer and the seller and concern to different stages of one production. In case of vertical integration expansion of activity can occur as due to connection of the companies which are carrying out the previous stages of production, down to extraction of initial raw material, and the companies engaged in sale of goods to consumers.

Example of vertical merge in Latvia is purchase in 2009 the enterprise on manufacture of food stuffs “Spilva” the manufacturer of tea, seasonings and food additives “Latplanta” which factory is located in Sigulda volost. The enterprise is going to expand assortment of production and to introduce the uniform organization of activity of both enterprises.

Conglomerate mergers / circular – association of the companies working in different branches without presence of an industrial community, occur when the companies are not competitors and are not concerning the buyer and the seller.

Such holdings possess, as a rule, flexible, easily changeable structure and represent something like the investment funds putting available assets in projects interesting to management.

As example of such merge is transition in the property of the Estonian company “Alta Capital Partners” the dairy enterprise “Rīgas Piensaimnieks”, building company “LEC”, and also the known manufacturer of linen “Lauma” serves.

Strategy of the company using in the development mechanisms M&A, is formed proceeding from those purposes and tasks which are put before itself by the given company. Revealing of motives is very important since they reflect the reasons, on which two or several companies, having united cost more expensively, than separately.

Reception of synergetics effect is one of the basic motives of fulfillment of M&A transactions, i.e. market power and efficiency of again created company exceeds similar parameters existing before independent firms. In such cases resources are redistributed and efficiency of their use rises. Two main types of a synergy are an operational synergy and a financial synergy. The operational synergy is shown in two forms – increase in incomes and reduction of charges. The financial synergy is an opportunity of reduction in expenses for the capital as a result of connection of one or more companies.

Example of a financial synergy is purchase by Icelanders of the Latvian firm “Aigas nams” (retail trade in a stationary). The same investor has developed strategy of purchase of the companies of the same type in Lithuania and Finland, having formed thus the big holding. Having bought a number of the firms trading in a stationary, the investor considerably reduces the total costs on conducting this business.

Economy from scale. The united companies possess a number of similar functional divisions, such, as accounts department, management of the financial control, marketing management, advertising, research and marketing divisions, etc. Duplications of functions can be avoided, having created the uniform centralized managements of the optimum size instead of usual association already available at the united companies that will lead to significant reduction in expenses for their maintenance.

As an example may be association of administrative functions of the branches in Latvia “Laima” and “Gutta” (Pribalt.info. The Latvian Comapanies) by “Confectionary AB” concern (Sweden), having founded the new company “NP Foods”. This decision will remove duplication of administrative functions and will strengthen positions of both enterprises in the market of Baltic. “NP Foods” has united logistical functions, departments of accounts department, management of the personnel, marketing, purchases and sales of “Laima” and “Gutta”, and also representations of the enterprises in Lithuania and Estonia.

Thus, the success of mergers and absorption is formed at a stage of development of the general strategy of the company development. Thus efficiency of M&A transactions is influenced with presence precisely objects in view, a substantiation of benefits, detailed preliminary research of the company – purpose, and also harmonious work of the team supervising process of mergers and absorption.

Structure of the market of mergers and absorption in Latvia in 2007–2009

After Latvia became a member of EU and in 2005 has shown the biggest growth among the European countries, the national economy became enough attractive for foreign investors. Aspects of appeal are the following: the political risk is not present, the country – European, the western businessmen understand how to work here, and growth thus high enough. Peak of transactions of mergers and absorption was in Latvia in 2006 when the significant amount of investment transactions has been carried out by the businessmen who have reacted to fast development of a national economy. As well as all over the world, in Latvia there were popular among investors the spheres directed on satisfaction of needs of consumers: trade, manufacture of the goods and services, construction, the real estate.

However, in 2007 the economy of Latvia starts to cool down gradually and times when it was easy to sell business, have ended. In conditions of falling demand the structure of the market of mergers and absorption changes also.

For definition of more exact statistics about transactions of mergers and absorption in Latvia for last years, on the basis of the data of information base of company “Lursoft” (LURSOFT) authors had been carried out the analysis of the performed

transactions for the period from 2007 till 2009. Selection of the enterprises was made on a parameter of the capital turnover: from 30 thousand up to > 25 mln. Ls. In the existing database of company "Lursoft" the enterprise were selected on a parameter of reorganization, being guided by "The Commercial Law", clause 334 where the concept of reorganization is described and it is supposed, that the company can be reorganized by association, division or transformation.

Thus the base which included 251 enterprises has been made.

Further for definition of number of the enterprises which the reason of reorganization was only merge or purchase stage by stage on each of 251 enterprises historical data of changes of members of board have been analyzed and the list of participants is traced which contains the following information: the name of the participant; time of reorganization; parts of shares; values of the share; the contribution in the fixed capital; interests of shares; the country-participants; the legal address.

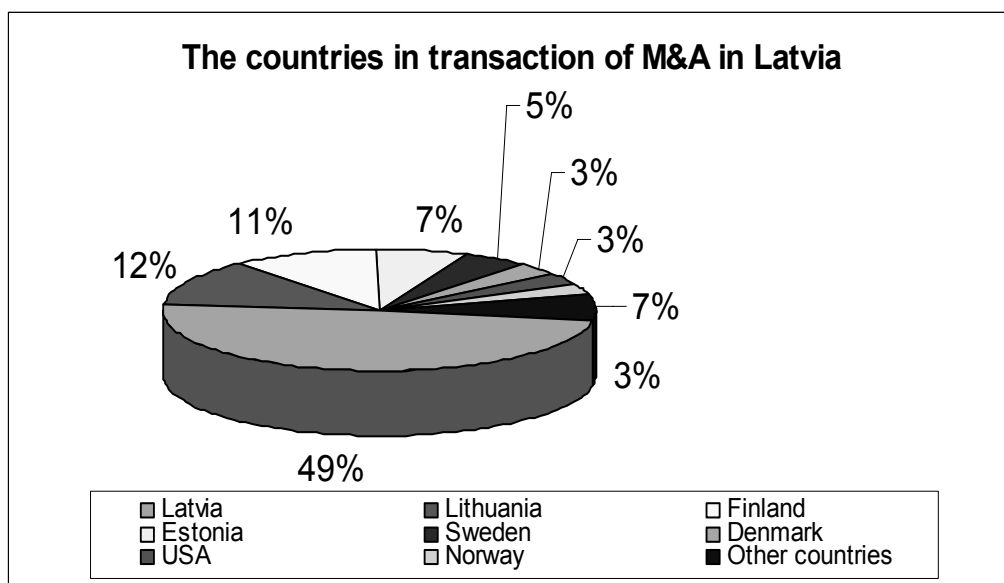


Fig. 1. Participation of the countries in transactions of mergers and absorption in Latvia

Thus the base of the enterprises which reason was merging or purchase of the companies has been formed. The quantity of those has made 186.

On the base of the 186 enterprises the additional base with division of the data on the countries which took part in transactions of mergers and absorption of the enterprises of Latvia is made.

As show the resulted data, the transactions accomplished in Latvia by residents make 49%, the following on participation of the capital in the country are Lithuania,

Finland, Estonia, Sweden. The group of other countries includes the countries which interest of participation less than two, they are displayed in Table 1.

Table 1

The countries – participants of M&A transactions in Latvia

| The country | Interest of transactions in Latvia |
|-------------------|------------------------------------|
| France | 1,60 |
| Cyprus | 1,60 |
| The Great Britain | 0,53 |
| Germany | 0,53 |
| Israel | 0,53 |
| Spain | 0,53 |
| Peru | 0,53 |
| Hong Kong | 0,53 |

By the received results it is possible to draw a conclusion that the basic share of transactions inside the country speaks that the enterprises with a small turnover is much more. The western investors are interested by the enterprises which turnover makes up several millions lats which in the country is relatively a small amount. The following step in the carried out research is the analysis of mergers and absorption by kinds of activity. The inquiry has been made on each of 186 enterprises about a kind of activity in conformity with NACE qualifier which is intended for definition of a kind of activity of the enterprise on the international classification. As the gradation has turned out fractional enough, adjacent sub branches have been incorporated. Results of division of participants of transactions by kinds of activity are submitted in Figure 2.

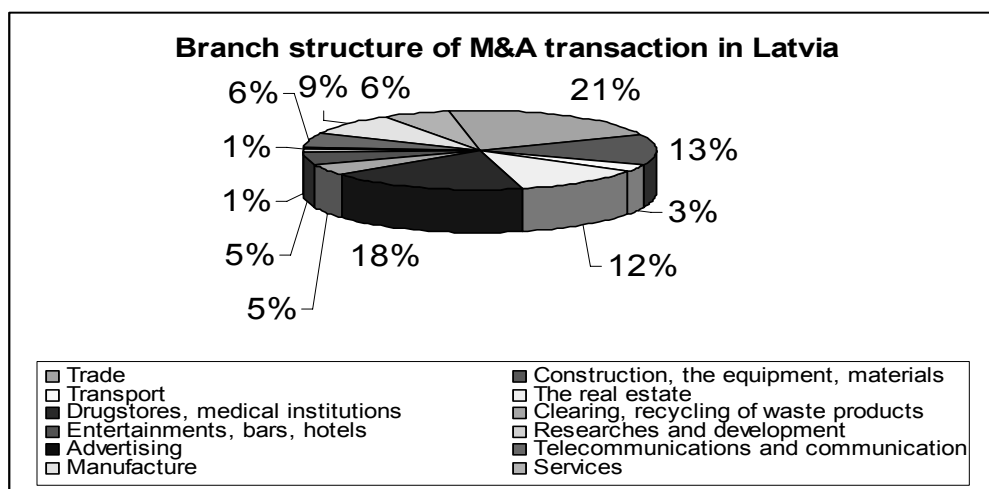


Fig. 2. Branch structure of M&A transactions in Latvia

Results of research have shown that the significant share of the perfect transactions concerns to drugstores and medical institutions and trade, the real estate, manufacture, construction, the equipment, materials further follow.

For the characteristic of the market of mergers and absorption the analysis of transactions on a turnover has also the great value. Within the framework of the carried out research the enterprises have been grouped on a turnover:

- from 30000 up to 500000 lats;
- from 500000 up to 2 million lats;
- from 2 million lats and higher.

Results of research are submitted as the diagram in Figure 3.

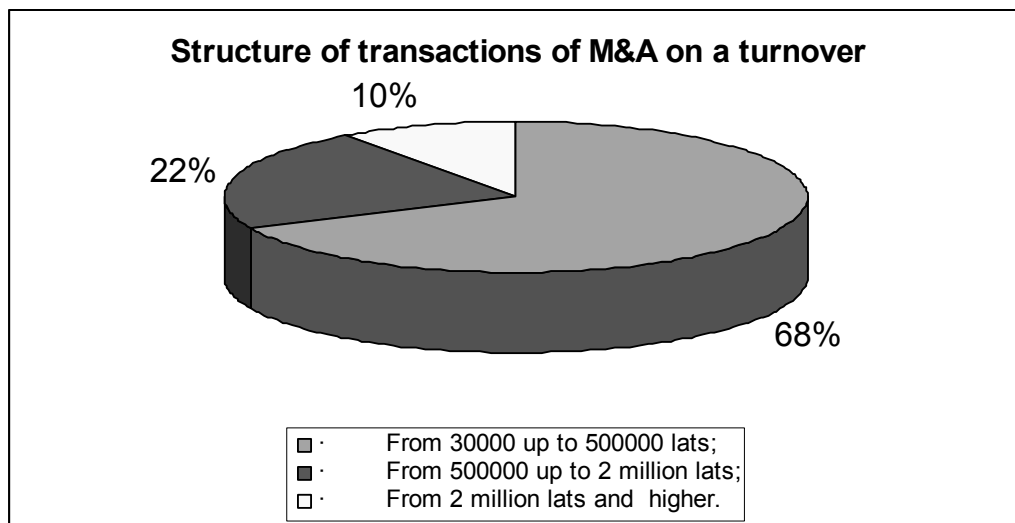


Fig. 3. Structure of transactions of mergers and absorption on a turnover

As the resulted data testify, the biggest interest (68%) belongs to the enterprises, participating in transactions with a turnover from 30 up to 500 thousand lats. It, in turn, is acknowledgement of dissociation of the market of the Latvian enterprises, and presence of movement in re-structuring of the companies.

In sector of transactions of mergers and absorption on a turnover of the enterprises from 2 million lats and more research has shown that transactions were carried out by foreign investors from Finland, Norway, Sweden, Netherlands, etc. In sector with a turnover from 500 thousand up to 2 million lats participation of Latvia makes up 23,7% of all transactions of mergers and absorption. In sector with a turnover from 30 up to 500 thousand lats, the volume of transactions with participation of Latvia makes up 42,5% of all transactions.

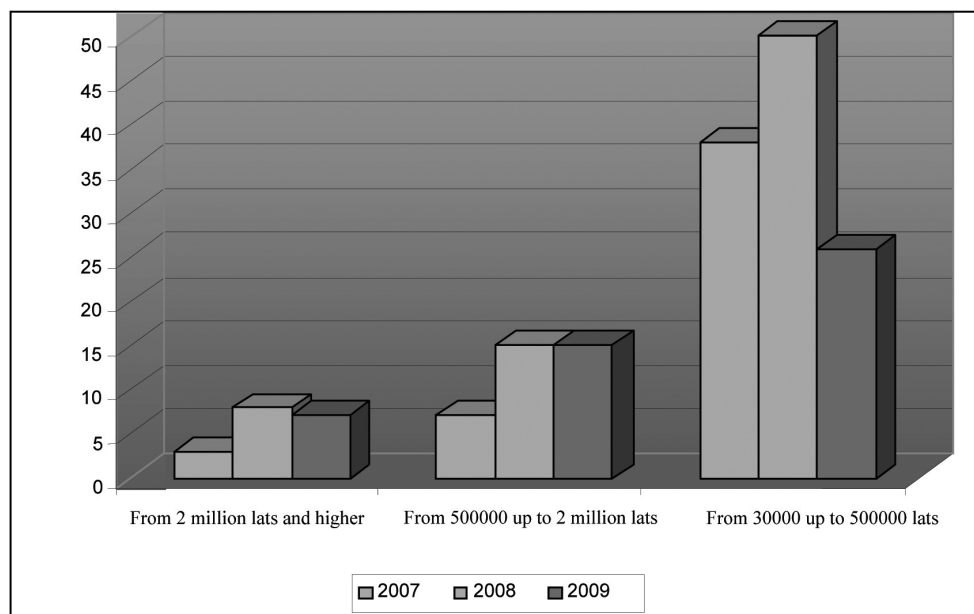


Fig. 4. Dynamics of mergers and absorption in Latvia on the capital turnover

In figure 4 the data designed on years are submitted, in view of division of the enterprises on the capital turnover on three categories. In the carried out research, concerning transactions of mergers and absorption in Latvia on the capital turnover the big dissociation of the market of mergers and absorption is observed. The received data testify to presence of a plenty of the small enterprises which in turn pass from the proprietor to the proprietor within the limits of Latvia. Transactions of larger character contain participation of only western countries, excepting Latvia as the investor at purchase of the enterprises with the big the capital turnover.

Analysis of the factors influencing realization of transactions of mergers and absorption in Latvia

Processes of mergers and absorption are affected with various factors.

By carrying out the econometric analysis it is possible to determine, what from them influence the sums of transactions of mergers and absorption in Latvia to a greater or lesser extent.

Research is carried out on a basis of the regressional analysis with use of the program for processing statistical information SPSS 17.0. For carrying out of the analysis the data on the countries which took part in M&A transactions in Latvia within three last years and the sum of transactions are used.

As the amount of the transactions accomplished in Latvia by residents very big, and they are carried out within the limits of the small sums, emission which deforms the received results turns out. Therefore the sums of transactions are ranged as follows.

Table 2

The table of conformity of factors to the sum of transactions

| The sum | Factor |
|----------------------------------|---------------|
| From 2 million < 25 million lats | 1 |
| From 500000 up to 2 million lats | 0,25 |
| From 30000 up to 500000 lats | 0,015 |

As the factors influencing fulfillment of transactions of mergers and absorption the following are chosen: an index of competitiveness; gross national product per capita (RBK Reiting); growth of inflation; an index of corruption perception (Internet Center for Corruption Research); economic freedom (The 2010 index of economic freedom); political instability (Reuters); distance from Latvia.

Values of these factors on the countries are chosen from the international comparisons to use of the following units of measurements:

- the index corruption perception is estimated in points from 1 up to 10 (10 – cleanliness, 1 – corruption);
- gross national product per capita is estimated in US dollars;
- rates of inflation are taken into account in percentage;
- political instability is estimated in points (the higher a point, the lower a level of political stability);
- the degree of economic freedom is defined in percentage;
- the index of competitiveness is estimated in points;
- the distance from Latvia is defined in points (the closer the country, the lower a point).

Thus we receive the following information table of factors on the countries participating in transactions of mergers and absorption in Latvia.

Table 3

The information table of the factors participating in the analysis

| The country | Fact. The sums | An index of competitiveness | Gross national Product per capita | Inflation | Political instability | An index of corruption | An index of economic freedom | Fact. Distances between the countries |
|---------------|----------------|-----------------------------|-----------------------------------|-----------|-----------------------|------------------------|------------------------------|---------------------------------------|
| Latvia | 7,05 | 4,26 | \$15,400.00 | 6,80 | 6,70 | 5,00 | 68,20 | 0,00 |
| Lithuania | 1,005 | 4,45 | \$15,100.00 | 3,80 | 6,10 | 4,60 | 72,00 | 1,00 |
| Russia | 0,015 | 4,31 | \$12,100.00 | 9,80 | 6,50 | 2,10 | 54,00 | 2,00 |
| Estonia | 3,090 | 4,67 | \$19,600.00 | 4,40 | 6,70 | 6,60 | 78,10 | 1,00 |
| Great Britain | 0,015 | 5,30 | \$31,400.00 | 3,00 | 4,60 | 7,70 | 81,60 | 8,00 |
| THE USA | 1,530 | 6,50 | \$43,500.00 | 2,50 | 5,30 | 7,30 | 82,00 | 20,00 |
| Spain | 0,015 | 4,72 | \$27,000.00 | 3,50 | 5,50 | 6,50 | 70,90 | 9,00 |
| Sweden | 2,795 | 5,53 | \$31,600.00 | 1,40 | 3,20 | 9,30 | 72,60 | 3,00 |
| Germany | 0,015 | 5,46 | \$31,400.00 | 1,70 | 3,80 | 7,90 | 73,50 | 4,00 |
| France | 1,500 | 5,22 | \$30,100.00 | 1,50 | 5,30 | 6,90 | 66,10 | 7,00 |
| Finland | 7,050 | 5,50 | \$32,800.00 | 1,70 | 3,20 | 9,00 | 76,50 | 2,00 |
| Denmark | 1,530 | 5,58 | \$37,000.00 | 1,80 | 2,20 | 9,30 | 77,60 | 4,00 |
| Norway | 1,280 | 5,22 | \$47,800.00 | 2,30 | 1,20 | 7,90 | 70,10 | 5,00 |
| Cyprus | 0,265 | 4,53 | \$7,135.00 | 9,10 | 4,10 | 6,40 | 73,10 | 13,00 |
| Israel | 0,250 | 4,97 | \$26,200.00 | 0,00 | 5,50 | 6,00 | 68,40 | 12,00 |
| Peru | 0,015 | 3,95 | \$6,400.00 | 2,10 | 7,00 | 3,60 | 62,40 | 20,00 |
| Hong Kong | 1,000 | 5,33 | \$36,500.00 | 2,20 | 4,00 | 8,10 | 89,30 | 19,00 |
| Belarus | 0,515 | 4,05 | \$7,800.00 | 9,50 | 4,80 | 2,00 | 47,40 | 1,00 |
| Austria | 1,500 | 5,23 | \$35,500.00 | 1,60 | 3,60 | 8,10 | 71,30 | 4,00 |
| Czechia | 1,000 | 4,62 | \$21,600.00 | 2,70 | 3,70 | 5,20 | 69,70 | 3,00 |
| Netherlands | 1,000 | 5,41 | \$31,700.00 | 2,10 | 4,00 | 8,90 | 77,10 | 4,00 |

On the basis of the submitted information we shall calculate the table of descriptive statistics which contains the information on analyzed parameters of sample: average value, the minimal, maximal and standard deviation.

Table 4

Descriptive statistics

| Parameter | Quantity {amount} | A minimum | Maximum | Average | A standard deviation |
|-----------------------------------|------------------------------|------------------|----------------|----------------|---------------------------------|
| Factor of the sum | 20 | 0,015 | 7,05 | 1,27 | 1,62 |
| Index of competitiveness | 20 | 3,95 | 6,50 | 5,0 | 0,63 |
| Gross national product per capita | 20 | \$ 6400 | \$ 47800 | \$ 26611 | \$ 11976 |
| Rate of inflation | 20 | 0,00 | 9,80 | 3,34 | 2,81 |
| Political instability | 20 | 1,20 | 7,00 | 4,51 | 1,51 |
| Index of corruption | 20 | 2,00 | 9,30 | 6,69 | 2,23 |
| Index of economic freedom | 20 | 47,40 | 89,30 | 71,68 | 9,43 |
| Distance from Latvia | 20 | 1,00 | 20,00 | 7,100 | 6,39 |

Thus, all countries which concluded M&A transactions in Latvia within last three years, are included in sample, the amount such has made 20.

For the preliminary analysis of interrelations between variables the correlation matrix has been designed which characterizes the importance of the included variables influencing parameters.

In our case from seven variables two appeared significant (the factor is significant if a significance value $\alpha \leq 0,05$): it is an index of competitiveness and an index of perception of corruption. That is it is possible to draw a conclusion, that parameters of gross national product, inflation, political instability, an index of economic freedom insignificantly influence the sums of transactions of mergers and absorption of Latvia.

On the schedule direct dependence of transactions of mergers and absorption on an index of corruption perception is visible: the more the country is corrupted, the less and for the smaller sum transactions are carried out. Thus, in Latvia the countries “pure enough” from corruption prevail.

The index of competitiveness is reflected in points – the higher a point, the more competitive country is. Parameters are in average limits and in direct dependence, advantage of the competitive countries which conclude transactions of mergers and absorption in Latvia for *the big* sums however is observed.

Conclusion

The econometric analysis of processes of mergers and absorption in economy of Latvia for last three years, carried out on the basis of 186 enterprises which have replaced proprietors, has allowed revealing the major factors determining participation

of the countries in transactions in territory of Latvia. Research has shown that the majority of transactions are carried out by the countries from Scandinavia and also Lithuania and Estonia. It is explained by essential influence of such factor as an index of corruption perception as the Scandinavian countries concern to number of the least corrupt countries. At the same time, essential influence of such factor as an index of competitiveness explains that fact that only foreign investors take part in transactions of the large companies, and the big percent of transactions made with a small turnover, belongs to the Latvian firms inside the country. It, in turn confirms dissociation of the market of the Latvian enterprises and instability of its structure.

Dissociation of the enterprises of one branch complicates opportunities of an exit on the new markets and reduces their competitiveness. Therefore the problem of consolidation of regional business remains the basic as dissociation not only reduces appeal of Latvia in the market of mergers and absorption – it does not give to develop to business.

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NEW CHALLENGES IN SCHOOL MANAGEMENT IN LATVIA IN THE 21ST CENTURY

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Abstract

The management and leadership of the organization are considered to be social phenomena which are actually necessary for any group engaged in implementing a particular aim. The leader of an educational institution should possess not only definite professional methodological competences but also the management competences which can ensure effective work of the school in modern environment.

The principals of the educational institutions of Latvia have good professional knowledge; however they lack general skills how to manage the education processes and human resources though the staff management issues are very topical in schools.

Nowadays the principals of the educational institutions have to take into consideration that management is related to people and not technical issues or work with documents and, therefore, the cooperation with the pedagogical staff plays the key role – purposeful management of functions only when they have been considered in advance.

The concepts ‘leadership’ and ‘management’ have been differently explained in the scientific literature; however, the understanding of the concept ‘leadership’ is narrower than the description of the concept ‘management’ because management as a complex set of tasks includes systemic tasks and problem solutions therefore it can be interpreted also as the management process implemented in a particular action.

Management can be considered as a set of tasks for achievement and provision developed by the leadership which is implemented by different departments of the institution. Though the situations and problems are different, they still can be solved if the organization has a general catalogue of management tasks, which the responsible people and the representatives of the leadership are implementing. This catalogue is understood as the general tasks of the management implemented at five management levels: planning, organizing, staffing, directing, controlling as the supervision of the processes.

The management process where these five management functions are implemented is considered as logically arranged and applicable in education and other fields of

national economy because the final function – controlling as supervision is impossible without planning – the primary function.

Keywords: *Management, catalogue of management tasks, planning, organizing, staffing, directing, controlling.*

Purposeful Management of Processes and Human Capital

The management and leadership of the organization are considered to be social phenomena which are actually necessary for any group engaged in implementing a particular aim and, therefore, its leader should possess not only definite professional methodological competences but also the management competences which cannot be mastered in the process of academic education only. Observing and studying the activities of the principals of companies and organizations in Latvia, for example, those in the field of education, the author concludes that the principals of the educational institutions of Latvia have good professional knowledge; however they lack general skills to manage the education processes and human resources. It should be concluded that the most essential problem of the top management is the inability to use the management instruments that would provide a possibility to manage also the interdisciplinary companies and organizations.

The most prominent American researcher of management science Peter F. Drucker considered that in the leader's work "productivity means to perform things correctly. Effectiveness means to perform the right things". (Haas Edersheim 2007) The scientist reasoned philosophically that "management is, firstly, connected with people not the technologies and the work schedule. Only the attraction of people has real importance. An effective leader actually decides only on some questions. Three crucial questions are: What is the field of our work? Who are our customers? What do our customers find valuable? Purposeful management functions only if it has been well considered in advance".

The concepts 'leadership' and 'management' have been differently explained in the scientific literature; however, the understanding of the concept 'leadership' is narrower than the description of the concept 'management' which should be defined broader as an institutional concept that can be attributed to people and a functional concept which also embraces the whole set of management tasks. (Hentze, Kammel, Lindert 1997) In Latvia the experts of various fields use the term 'management' without providing its translation because the term 'leadership' has been interpreted in a narrower sense. The term 'management' would be acceptable in the scientific space of Europe and Latvia is also a part of it because in most of the European countries the term is not translated. Management in the institutional sense means the hierarchy of positions in the organization, company or the country. Management does not only

mean managing the entrepreneurship but it is also the management organ of all the institutions of a modern society. (Drucker 2009b)

Management in the functional sense can be explained as a complex of diverse tasks that should implement successful leadership of the organization. As regards the education system of Latvia, the complex of tasks is formed by the long-term development plans and decisions to ensure everyday actions; however, on the whole, they still cannot be considered as a full-fledged future vision of education. One of the documents intended for planning the long-term development of Latvia “Long-term Investments in the Human Capital of Latvia: the Answer to Demographic Challenges” expresses the idea in several paragraphs that, firstly, the attention should be paid to education at school and, secondly, it is followed by parents’ investment in the education and upbringing of their children at early age in order to ensure the talents and abilities of human capital in Latvia.

When planning the development of Latvia till the year 2030 it was stated that in future all the available human capital in Latvia will have to be used even more effectively because the society is aging and, therefore, more attention should be paid to further education of adults and to their professional prequalification. “However, we should take into consideration that if we invest only in education at the same time not increasing the possibilities to use the acquired knowledge and skills at the work places we are lowering the productivity of the total human capital and make the accomplished investments in education less effective. In other words – a person with top level knowledge and skills, who has no possibilities to apply them to their maximum, means lost investment” (Long-term investments in the human capital of Latvia: The answer to demographic challenges).

The document also puts forward priorities that have to be considered when developing aims for a shorter period of time:

- a priority for increasing the base value of the human capital of Latvia in long term is education towards higher education and lifelong learning;
- a priority for increasing the productivity of the human capital is intensive application of the acquired knowledge in the work place.

Observing the planning process of education for the nearest future, the author has noticed a tendency to ignore the set priorities for education because at present their recognition is economically unprofitable.

The scientist J. Hentze describes the management functions in the leadership of the organization (also in education, the author’s remark) in the following categories: planning, organizing, staff directing, leadership and controlling function. This functional order realizes the didactic necessities that ensure the organizing of planning and the planning of the organization. (Hentze, Kammel, Lindert 1997) Qualitative management is ensured by the help of management strategies of the organization, which on the whole form the decision making process that is divided into stages:

representation of the will (planning, selection of aims), execution of the will (organizing, implementation), ensuring the will (controlling, the fulfilment of aims) as well as making controlling decisions.

The management development in the organization takes place in three directions: behavioural science, business administration and management science. The scientist J. Hentze depicts management as all-embracing and aim-oriented leadership:

Table 1

Functions of the Purposeful Management

| Management functions | Material aspects of company's functions | Personal aspects of the company's functions |
|--------------------------------|--|--|
| Orienteering functions | Goal-oriented managerial decisions | Human resources management |
| Institutional functions | Formation of the system | Change of the management system and structures |
| Procedural functions | Operative management of the material processes | Staff management as a direct management |

Source: Hentze, Kammel, Lindert

Staff management in the organization does not only mean direct interactive type of management to influence the employees. Staff management should be understood much broader; it also means the functioning of the structures and institutions, for example, team building, identifying the kind of work to be performed, the motivation system and the decision making as well as the functioning of the personnel in order to implement the strategic aims and vision of the organization. Staff management in its broadest sense also means the further education of the employees and human resources management.

The scientist Peter F. Drucker in his concept reveals the key aim of the entrepreneurship and management in the 21st century which the leader has to implement: "The entrepreneur has to earn the loyalty of his/her employees every day anew". There is no such understanding of management in Latvia because the employer, e.g., in education – the teacher, pedagogue is not considered as a full-fledged personality and, therefore, in the work relationship the employer can act according to his/her rather selfish considerations. If teachers, including the author, expressed this thought to the leaders in the field of education that every day these leaders have to thank teachers for the invested creative energy then may be after some tens of years the attitude towards the employees' intellectual investment in Latvia would change.

Organization is "omnipresent and unavoidable" and purposefully oriented, planned structural unit that complies with the order established in the organization. The management should not influence the employees in a direct way; the impact should be without direct influence because modern technologies provide different possibilities for the diversity of action.

Standard Application of Management Functions

Management as a complex set of tasks includes systemic tasks and problem solutions therefore it can also be interpreted as the management process that is realized in a particular action. Each of these directions includes some field of the organization management and mutually these directions are connected and indivisible therefore there is a need to put forward questions and the question about the understanding of the concept 'management', in particular: 1) Which tasks does the management set? 2) How to distinguish successful management from unsuccessful? 3) Which models and methods should be used in management? 4) What management organization is necessary in a modern company? 5) To what extent is it possible to plan the management tasks?

The theoretical endeavours to define the concept 'management' as the leadership of the company or organization as well as the management studies have initially developed in two trends: on the one hand, management as an institutional function and, on the other hand, as a set of tasks which has to be realized for direction and development of the organization.

Latvian scientists V. Praude and J. Beļčikovs define scientific management as a theory about the actions of the organization and the relations of the employees. Classical theory on organizations explains the foundations of the management of the organization. (Praude, Beļčikovs 2001) The scientist H. Steinmann, in his turn, describes **management** as a set of tasks of achievements and provisions that has been developed by the administration and which has been implemented by the divisions of the organization. These tasks should actually be considered as problems which tend to repeat and they have to be solved at each level of administration regardless at which resource, hierarchy stage and division these problems have emerged. Though the situations and problems are rather different they are still solvable if the organization has a general catalogue of management tasks. The responsible people and the representatives of the administration implement the catalogue of management tasks as well as the management in its institutional sense. This catalogue serves as the **general management tasks**.

Harold Koontz and Cyril O'Donnell have defined the standard of management tasks in modern understanding.

Table 2

Management Standard Nowadays

| | | | | | |
|----|----------|------------|----|----------|-------------|
| 1. | P | Planning | 4. | D | Directing |
| 2. | O | Organizing | 5. | C | Controlling |
| 3. | S | Staffing | | | |

Source: Steinmann, H., Schreyögg, G.

According to the management standard, **planning** is the primary function, a logical point of departure of the classical management process which reflects only reflections on what has to be implemented and fulfilled in future. **The planning process** is the determination of the direction of the aim, the development of future actions and the optimal choice. It is the selection of the long-term and short-term aims, the guidelines, programs and adequate methods in order to implement this program as a whole or only some parts of it. It means that this idea is the beginning of the process where planning is the **primary function** in a sense that the other functions and their aims stem from the planning and to a certain extent are subjected to it.

The second most important management function which the scientist H. Steinmann explains is **organizing** or the subordination of actions to the implementation of the plan. If regard planning as preparing in thoughts and it needs an aim, if we really want to lead the employees of the organization then the management function – organization is understood as the first step towards the realization of aims in which all the necessary tasks for ensuring the realization are grouped. It is very important to establish foreseeable and planned working places and divisions with proper competences and horizontal/vertical connection. The resources are concentrated and distributed during the organization process and the advancement of resources is coordinated. Observation of particular principles of the managerial and economic action promotes the attainment of the set aims of the institution which have been successfully implemented by the companies, e.g., in Denmark (Šmite 2006e):

- assessment of the correspondence of the institution to the attainment of the set aims;
- determining the sequence, scope, time and performers of the actions;
- development of the economic mechanism for the attainment of the aims;
- coordination of the interests with the institutions that are related to the company and the external institutions;
- distribution of the employees' responsibilities and rights, defining the legal, economic and pedagogical responsibility of each employee, the quality requirements;
- establishing the control system that informs in good time about the process and results of the work;
- study of the resources of the company, attraction of new resources;
- establishing the coordination system of the company's work and delegation of the rights and duties of the coordinator;
- establishing the moral, material and psychological systems of the employees in the company.

Here we should also mention the establishment of the communication system which ensures the employees with the necessary information for a more complete realization of the tasks in the established work structures and divisions.

The organization process in the educational institution should be well considered if this includes not only the distribution and concentration of the resources but also the

development of the coordinated action. The leader in the company must understand that each employer's aim corresponds to the aim of the whole company. A well-established communication system is able to ensure sufficient and timely flow of information for the realization of the company's aims therefore the aim of the organizational structure is to create comfortable environment for the action of the people.

A. Šmite mentions the main mistakes in the organizational process at school that have been found in practice (Šmite 2006e): 1) wrong assessment of resources; 2) insufficient evaluation of the demand; 3) the lack of prognosis about the coming processes; 4) delayed coordination of action; 5) lack of a common system of management aims, lack of coordinated action for the development of the system; 6) the implementation variants are not analyzed in the process of selecting the aims; 7) the succession is not observed in the realization of the action; 8) insufficient stimulation; 9) the latest legislation is not being observed; 10) not all the aims defined at the institution agree with the teachers' or even the country's interests; 11) insufficient preparatory work for implementation of aims; 12) unstable links with the partner institutions; 13) irrational management system; 14) weak economy at the company, environment, country.

In order to ensure effective pedagogical action there should be no such mistakes in practice; however, during the current crisis these mistakes appear even more acutely – there is no coordinated action for development of the education system, there is no stable cooperation with the partner institutions and in the country, there is no cooperation with the social partners as well as the education sphere has not been put in order. Consequently, there are drawbacks in the economic action.

The most significant resource of the organization in the 21st century – the man is able to ensure effective functioning of the organization in a longer period of time therefore a qualitative human resource management (selection of employees/ provision of the work places) plays a very important role when starting to develop the staff in the organization. The selection of human resources can be started only when planned and organized action has been ensured. The human resources' functions are not only occupation of the work place but also a continuous process, provisions and preservation of human resources. The human resource management also means the assessment and development of the staff. The staff should have their responsibilities and tasks as well as they have to be provided a fair remuneration system.

Human capital is mentioned as the most important resource of the company or organization in this century because, e.g., during the crisis far-sighted leaders attract such people to their companies whom they could not persuade to become their employees before. In the present situation in Latvia, it is inexpedient to dismiss highly professional employees because afterwards it will be necessary to educate next employee for the acquisition of the work and, thus resources will be invested anyway.

Management (definite suggestions for the realization of the plan): After the organization process and structural formation of human resources the ideal final stage

would be the performance of permanent, concrete and aim-oriented tasks. Everyday actions of the leaders and its establishment should be understood as management in the narrow sense. It reflects the influence of the administration in the micro-structures of the company and how administration influences the actions through optimal encouragement. **Motivation, communication and conflict management** are the most significant themes in this field of management.

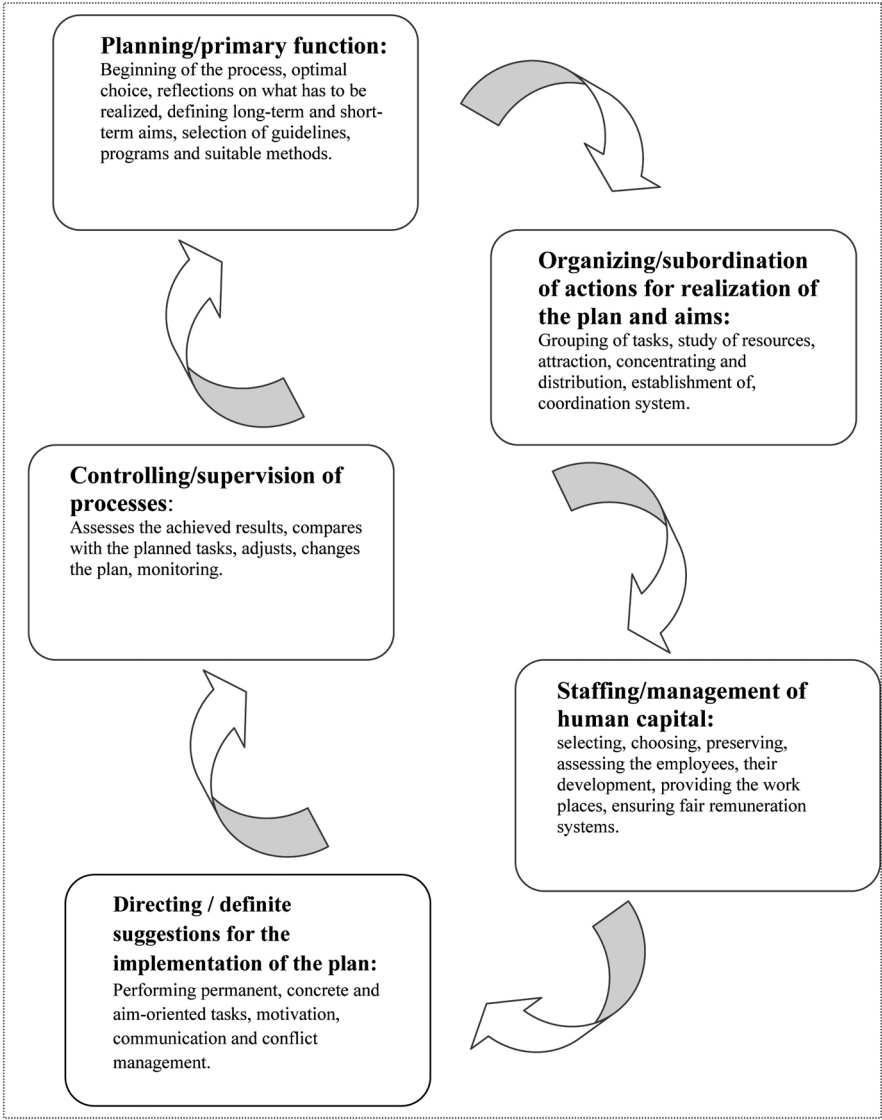
A. Šmite mentions only four management functions: planning, organizing, motivating and controlling. However, H. Steinmann stresses management for ensuring everyday processes as a separate function.

Motivation (according to A. Šmite – motivating) in the educational institution is a very important part of everyday management function because it influences the teacher and, therefore, the leader (manager) has to choose such kinds and methods of motivation that allow persuading teachers to work creatively and with return for the benefit of their institution.

Controlling process (supervision of processes): the last phase in this management conception is the controlling process/ supervision of processes. The controlling process is the last step when the achieved results should be assessed and they have to be compared with the planned tasks. The information obtained in the controlling process serves as a starting point for new plans and the beginning of new management process. It is also possible to adjust the plan and to introduce changes in order to react flexibly to the rapid changes of the external environment. The implementation of plans is controlled by controlling the employees' work results. In the control process the leader has to notice the already existing problems, to assess the current or expected crisis situation and to make new decisions for realization of the objectives. The controlling process is the supervision over the realization of plans and the adjustment of plans which is necessary along with changes to the internal and external environment.

Therefore the management process **POSDC** is considered as logically arranged and applicable to all fields of national economy, including education because controlling like supervision is impossible without planning.

Having got acquainted with the studies of management tasks by H. Steinmann, A. Šmite, V. Praude and J. Beļčikovs, the author has developed a model "The Catalogue of Management Tasks" (see Figure 1). Thus the basis of the management process is ideas, people and processes that are related to the management process. The author has assured herself in the discussions with leaders that it is impossible to say what is primary in the catalogue of management tasks – planning as the beginning of a new management process or controlling/supervision as the basis for the beginning of a new period because controlling always finishes with the SWOT analysis which serves as a basis for developing the strategic plan for a new period therefore the planning process could never do without a serious study of the external and internal environment, determining the opportunities and threats.



Source: Tauriņa

Figure 1. Model of the Catalogue of Management Tasks

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THE SOCIAL ASPECTS OF SUSTAINABLE DEVELOPMENT WITHIN THE LIMITATIONS OF FUNCTIONAL NEEDS AND SYSTEMIC APPROACH

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Abstract

The progressing degradation of the surrounding environment and the decrease of the regeneration capacity of the renewable resources to a great extent relate to social problems of global nature - poverty prevailing in the world, high infant mortality, low educational level, growing diversity of income levels and the prevailing injustice in satisfying the basic needs of individuals. The main problem of the study is the uncertainty of the content of the notion of sustainable social development and its uncertainty within the conception of sustainable development. The object of the study is the aspects of sustainable social development and how they fit into a consolidated system of sustainable development. The study identifies the major social aspects within sustainable development, updates the content of the notion of sustainable social development, reveals its relation with satisfying the basic needs and the other key components of sustainable development, as well as proves the social importance of sustainable development. A great attention is focused on satisfaction of needs of individuals and their impact on sustainable development and the absolute limits of natural resources, revealing the necessity to include into the sustainable development conception the basic needs, that fill the sustainability idea with a definite content and enable taking certain measures to minimize the destructive human presence to the surrounding environment. The authors point out the necessity of a systemic approach to solutions of social sustainability problems. The developed sustainable development models reveal the key elements of the sustainable social system and their functional relation to be used in decision making for promotion of social sustainability in a specific institutional environment.

Keywords: *social sustainability, social aspects, primary needs, systemic approach.*

Introduction

The challenges of implementation of sustainable development concept become increasingly topical very rapidly in the setting of global economy. More than 40 years have passed since the early 70ties when the Club of Rome was among the pioneers in the world to turn the public eye onto issues of environmental protection and common-sense use of natural resources. (Meadows, Randers and Behrens 1972) This initiative was soon upheld by the United Nations Organization, publishing in 1980 the study so crucial to preservation of environment titled “The World Conservation Strategy”, which was the first to provide a logical account of the necessity for sustainable development of environment. (The World Conservation Strategy 1980) How the living world has changed since that? Unfortunately, the answer to this issue so essential to society is not comforting. In early 70s of the previous century, about 75% of the produced volume of renewable resources were consumed in the world per year, and then came the *overshoot day* – on 20 August 2010 the line of ecologically permissible consumption rate of natural resources was transgressed. (Global Footprint Network 2010) In the first 8 months and 20 days of this year the volume of goods and services consumed reached a level, which was equal to the annual limit of renewable resources used to produce them.

The progressing degradation of the surrounding environment and the decrease of the regeneration capacity of the renewable resources for the major part pertain to social problems of global nature - poverty prevailing in the world, high infant mortality, low educational level, growing diversity of income levels and the prevailing injustice in satisfying the basic needs of individuals. A study of the World Bank revealed that more than 1.9 billion of the world’s population are to survive on funds not exceeding USD 1,25 per day. (World Bank 2011) According to the data published by FAO at the end of 2010, 925 million out of 6,8 billion constantly suffer from the lack of food. The number of the hungry has grown by 145 million compared to the level reached at the end of the last century. (FAO 2010) Lack of healthy and sufficient nutrition has the most acute effect on children – in case of malnutrition each child is on average being sick 160 days a year or more than 5 months, hunger is the major cause of death to 6 million children in various countries of the world. More than 70% of children under malnutrition live in Asia, 26% in Africa and 4% in the Caribbean countries of Latin America. (World Bank 2011)

The first decade of the XXI century has brought winds of change trailblazing in the field of energy. Investments in renewable energy resources to increase their ratio in the aggregate amount of energy resources in 2008 by 155 billion USD exceeded the financial investments to increase the volume of fossil energy resources and upgrading the applicable technologies. This result becomes yet more significant, when being aware that in 2004 the volume of investments in production of alternative energy resources was above the aforementioned just by 35 billion USD. (Steiner 2010) Such investment restructuring in the energy sector has a positive social side effect. Industries of renewable energy resources employ over 2,3 million population of labour age, which

exceeds the number of those employed in oil and gas mining and processing and transportation of fossil fuel. (Ban Ki-moon and Al Gore 2009) A certain progress can be spotted in reduction of poverty. The number of population living on 1,25 USD has shrunk by 17 percentage points compared to 1990. The number of people living in extreme poverty fell from 1,9 billion in 1981 to 1,8 billion in 1990 to about 1,4 billion in 2005. The number of people living on less than \$2,00 a day has remained nearly constant at 2,5 billion. In the recent decade, the rate of illiteracy in the underdeveloped countries has reduced from 46% to 42%. (World Bank 2011)

Previously, the social aspects of the sustainable development concept attracted minor attention on scientists' and politicians' part, focusing on issues of the increased environmental degradation and efforts in diminishing the global pollution, as well as solving the problems of economic growth. This study primarily addresses the issues of sustainable social development by revealing the connection between this concept and the general concept of sustainable development and the necessity of systemic approach, thus enabling harmonic and balanced integration of social, ecologic and economic development aspects in the concept of sustainable development.

The main problem of the study is the uncertain content of the notion of sustainable social development and the uncertainty in implementing it within the concept of sustainable development.

The goal of the study – to identify the most significant social aspects within sustainable development, to update the content of the notion of sustainable social development and to reveal its connection with the other key elements of sustainable development.

The hypothesis of the study – the concept of sustainable development is impossible to be implemented under the growing limitations of natural resources unless the attention is paid to the prevailing social problems pertaining to the options to satisfy the basic needs of individuals in countries of diverse level of development; the solution to the issues of sustainable social development lies in a systemic approach and in emphasizing the social aspects in order to diminish the environmental degradation effect and to maintain the renewability of the biological capacity of the Earth.

To attain the goal of the study, the following ***methods are used***: the methods of induction and deduction, the methods of analysis and synthesis and other methods to the point of the study contents.

Sustainable development's dual nature and primary needs

Since the sustainable development concept has entered the political and academic environment, the public is offered a myriad of various articles by journalists and politicians, and scientific studies addressing various issues of sustainable development. As a result, we are now facing notions like “environmental sustainability”, “urban and

rural sustainability”, “weak and strong sustainability”, “sustainable management”, “sustainable culture”, “sustainable housing”, “sustainable construction”, and many other sustainability categories, which not infrequently include everything and nothing in particular, they have nothing in common with the original essence of the sustainable development. Thus a chaos of taxonomy is created, impeding the comprehension of the social, economic and ecologic contents of the notion “sustainable development” and its practical applicability as well as in scientific research.

Terminology problems are those that account for the major part of the dualistic content of the term “sustainable development”, which combines two significant notions – “development” and “sustainability”, perception of which and attitude towards them has been very contradictory until now. This can be explained by the egoism of political actions of countries more advanced and the lack of uniformity of the scientific thought in studying global problems like social cohesion of countries of the world and maintaining the regeneration capacity of limited biological resources to satisfy the constantly growing public needs.

The differing levels of development among countries of the world, the social and ecologic aspects of development problems, quantitative and qualitative aspects of the interaction between the developed and underdeveloped countries, the increasing intensity of globalization in the world, and its positive and negative side effects have greatly facilitated the discussion about sustainable development and have created the soil for developing its diverse interpretations. As early as mid-nineties of the previous century, the literature on economic matters offered more than 300 versions to the notion “sustainable development”. (Jacobs 1995)

The diverse interpretation of sustainable development pertains to objective and subjective aspects. The crucial objective aspect pertains to the interpretation of the notion included in the UN Brundtland Commission report, dwelling on imposing limits on satisfaction of needs of an individual, of social groups, the public and the state, the necessity for such limits underlying in the rights of individuals of successive generations to satisfaction of their needs. (United Nations 1987) If such an approach can be afforded by politicians, philosophers and anthropologists, then economists cannot accept it essentially. The needs in the economics theory are clearly separated from usefulness and consumption. If needs are the function of fantasies and emotions, then usefulness – the volume of goods and services is the function of budget revenue and expense. The internal laws of the market economy determine that households, businesses and other subjects of the national economy limit their needs according to the availability of funds to their budget and the prices of resources. Thus, the consumption of individuals, businesses and the state are more affordability driven and public benefit price determined rather than response to settle any arising needs. Besides, it should be kept in mind that the range of human needs spreads far beyond physiological and dwelling needs, the ratio of which is the highest in economies of

lower development level. (Chuengsatiansup 2003, Holden and Linnerud 2007, Maslow 1943) With the life standard going up, other needs come to foreground, like safety, sense of community – the need for a family, friends and love; desire for respect, recognition of others and praise to boost self-esteem, as well as self-actualization as the top manifestation of the needs pyramid. L. Seghezzeo believes that all these needs may not be classified as social needs in the sustainable development context. (Seghezzeo 2009) Regarding the diverse social and economic standards and levels in countries of the world, for the purposes of the sustainable development concept, the notion “needs” is narrowed to “basic needs” or “fundamental needs”, found on various levels of Maslow pyramid. The basic needs of individuals include the following needs most important to each individual (Max-Neef, Elizalde and Hopenhayn 1989):

- existence – need for sustenance, work and shelter;
- protection – need for safety, adaptability, availability of health protection and social insurance system, necessity to cooperate to attain the necessary safety level;
- affinity – need for family, respect and necessity to express respect and love, friendship;
- introspection and self-awareness – need for education, contact with the live nature, need for investigation, meditation and other mental improvement;
- participation – need to assume responsibility, perform obligations, engage in work and public activities;
- recreation – need for physical and mental relaxation, necessity to engage in various games, culture events; need for peace and silence, etc.;
- individualistic nature – need to be aware of the self as a unique, self-dependent personality, belonging to a definite country, language, culture and family traditions;
- freedom – need for private autonomy, desire to express emotions and affinity, participate in discussing various issues and express one’s opinion, take the risk and develop skills of understanding, etc.

The 8 needs that are included in the basic needs actually form related, functionally similar sets of needs, determining human behaviour at a definite age and in a definite situation. The needs included in the fundamental needs are essentially comprehensive as regards countries of the world, they do not depend on the development level of the country and the level of public welfare. The primary needs do not change by looking at a different geographical location of a country, by other prevailing culture traditions, legal setting or other dominant religion. It allows inclusion of the fundamental needs in international comparisons in order to analyze and measure the accessibility of the social system, its compliance with the key conditions of sustainability and satisfaction of the basic needs of a human.

The inclusion of the fundamental needs into the notion of sustainable development enables transition from uncertainty in desires and the insatiability in satisfying them to

needs, where the necessity to pursue them is determined by the conditions of existence of a human as a conscious being.

It should be noted that inclusion of the notion “necessity to satisfy the basic needs” in the sustainable development concept is regarded as a significant achievement and a step ahead in the long way from discussing sustainable development to particular activities to attain sustainability and maintenance of producing capacity of natural resources.

Sustainable development social importance

Being aware of the preconditions to the origin of the sustainable development notion, the essence of its contents and the idea, it may be stated that the public development sustainability concept should be focused on satisfaction of the basic needs of the human – securing conditions required for existence and survival at the present development level of the world and the future. In order to have a clearer view on the social, economic, ecologic and institutional context of sustainable development, the world should be looked at “from above” in spatial and temporal dimensions. It enables us to see that the poverty and social seclusion, being the primary and key challenges of sustainable development, are phenomena widespread in the world, the origins of which trace back to time when civilization learned of production of goods. Originally they were used for self-consumption, but as the civilization progressed, the amount of goods produced exceeded the amount required for self-consumption, they were started to trade for other goods, thus laying economic fundament for accumulation of wealth within a certain social group.

Social development history is abundant in events directly or indirectly related to the efforts of individuals and even countries to multiply the wealth at their disposal. The attributes of wealth have been in limited amounts in the world in all times. Creation and multiplication of the attributes of material wealth is a lot more complex, effort and time consuming process of creation when compared to redistribution of wealth, which usually started out as innocent cross-border trade. (Landes D. S., 1999) History is full of paradox in this respect, revealing the public ambivalence. When any individual fancied to “redistribute” the wealth owned by some of the rich in favour of himself, then he was thrown in prison or forced to hard labour. While invasions organized by kings and politicians into other countries are described in history, names of many commanders and war heroes into memorial books, without specifying the actual causes for such actions and the devastating consequences they entail. In this case, capturing the wealth belonging to other countries and their population is accepted, although, from the humanity point of view, wars do a lot more social, economic and ecologic damage in comparison to individual case of burglary. (Porter 1996, Renda 2001) It does not mean that burglary, theft or other illegal activities would be justifiable in any respect. If they are condemned by the society, then that society ought

to be righteous enough to be objective and regard annexing territories of other countries and subjugation of peoples as inadmissible in essence. It is important to be aware of the social sustainability as a concept integrated horizontally and vertically, formation of the qualitative and quantitative aspects of which involves the individuals and the social groups themselves; and their mutual interaction generates positive and negative, material and intangible side effects both within the boundaries of a particular country and on the global, international level. A huge role in this process play governments of countries and international unions, their involvement, more deliberate and more effective, is crucial to minimize the social problems prevailing in countries of different development level, which jeopardize essentially the goals of sustainable development.

The redistribution process of the global wealth is still in progress, aggravating social problems in the respective countries. Military aggression campaigns are replaced by more sophisticated methods, starting with “export democracy” campaigns (Bevin 2005), and to “innocent” external trade transactions, where natural resources are bought from countries of lower social and economic development level at ridiculous prices, which do not encompass even resource regeneration costs. (Daly 1999, Turner 1999) Often a myth is instilled in the public thought and cultivated – of the subjective nature of poverty, crime and other undesirable social behaviours, in an attempt to camouflage the objective nature of the origins of these social problems, their stemming from the public institutional environment, social culture, the processes of social capital formation and availability, which determine the ability of the society to reproduce its social problems in a new quantitative and qualitative form, without addressing minimization of social injustice with due care. (Rid, Keaney 2010, James and Short 1997, Davies, Francis and Greer 2007, World Bank 2011)

The significance of social development aspects in the sustainable development concept is defined by awareness of the contents of the notion “social” and respecting it. The widespread use and the generally accepted content of the notion “social” facilitates and complicates at the same time the classification of the notion as a scientific category for studies of public development problems. Regarding the significance of social development aspects in the sustainable development concept, the most appropriate definition of the notion “social” is sought. The dictionaries published in Latvian, this notion is explained as follows:

- **social** – pertaining to society, the life of people and relations in society, characteristic to them; also public;
- **social** – something that pertains to social system, mutual relations of individuals in the society; public.

(The Explanatory Dictionary of the Latvian Language 2011) One can infer that these definitions are of an approach characteristic to primitivism from the aspect of defining notions, which fails to furnish the learner with the necessary knowledge for application of the respective word and/or comprehension of it within a particular

situation. In the first case, the essence of the notion is not revealed, it is not stated – what “social” is, and in what way it is different from other community related notions, for instance, “culture”, “environmental pollution” “crime”, etc. The other definition contains a similar deficiency, where “social” is defined as “something that...”. With a definition of this sort, one can place an equality sign between the notions “social” and “state and government”, as it also pertains to the public structure and relations of individuals in the society.

To minimize the deficiencies of the notion “*social*” (“*sociāls*”) as explained in Latvian, we will address the origin of the foreign word “*social*” included in the notion. Philologists believe that the word “social” used in Latvian has originated from the Latin word *socius*, meaning “*to form unions, build relations*”. The root of the Latin word “*sequi*” is related to the Latvian word “*sekot*” – “*to follow*”. Which implies that the notion “*social*” is used to characterize a broad range of public processes, related to the idea of individuals following formal and informal leaders, authorities or think-a likes.

In English, the notion “social” as a substantive is explained as follows:

- “social” as a **substantive**:
 - social – group of individuals, formed to facilitate public activities for purposes of implementing the interests of the individuals forming that social group (WordNet 3.0. 2008),
 - social – informal gathering, festivities; informal obligation (Collins, 2002);
- “*social*” as an **attribute**:
 - **social** – form of interrelation of the community and the groups formed within it (WordNet 3.0 2008),
 - **social** – form of living in groups naturally formed within a territory and adhering to a common management system (Collins 2002);
 - **social** – taking care of a lifestyle of a group of individuals in public (Kernerman 2010).

The notion “social” is usually used as an attribute in Latvian, not substantive. The definitions of the notion “social” provided above have a limited applicability within the sustainable development concept due to the vagueness, inaccuracy of its contents and other deficiencies. Therefore the following explanation to the notion “social” is offered, in line with the nature of this study:

***social** – a scientific category, which is used to refer to the interaction processes of knowledge, beliefs, behaviour and attitude of individuals and/or groups of society, as well as material and intangible effects of these processes.*

This definition encompasses the following key aspects:

- the notion “*social*” combines the form of processes and objects with the content of social processes and objects;
- “*social*” is being perceived as a denominator of interaction forms of both individuals and public groups;

- the notion “social” includes the potential forms of social nature of individuals’ socialization and mutual interaction and social effects created as a result of this interaction; effects, which can be, as a matter of fact, material objects (for instance, “social aid”) and/or intangible objects, (for instance “social ideas”).

The definition of the notion “social”, as suggested by the authors, provides a more stable philological and epistemological foothold for further investigation of social aspects and integration into the sustainable development concept.

The issues of social sustainability were begun to be addressed by scientific studies only at the beginning of this century. (Ciegis, Ramanauskiene, Martinkus 2009) To great extent, it was due to the mechanical approach to sustainable development issues. Politicians and political organizations of advanced countries believed that the sustainable development scenario defined in the UNO report may be attained by addressing the environmental protection problems separately, without any consumption cuts and incessant increase in usage of limited resources to maintain the facility of this consumption. Nothing has actually changed at the moment either – the consumption rate continues swelling, further flattening the regeneration capacity of biological resources. The scientific literature also focuses more onto issues of environmental protection and ecology, economic growth of countries, its global influence on the world, leaving the social dimensions of sustainable development neglected.

Some authors have attempted to reduce the social sustainable development to the notion “social sustainability”, providing the following wording in defining it (Colontanio 2008):

“social sustainability is related to the manner how individuals, communities and societies put up with each other and cooperate to attain the development model goals, which they have selected for themselves, taking into account the physical boundaries of the respective dwelling location and the globe as a whole.”

Following the nature of the contents included in this definition, development of individuals, social groups, communities and countries corresponds to the current development model. Besides the title of the notion – “social sustainability” does not correspond to the content included in this explanation – condition is replaced by processes. German researchers Littig and Griesler define social sustainability in a rather liberal form as follows: “social sustainability – a quality of life, a quality of societies. It signifies the nature-society relationships, mediated by work, as well as relationships within the society. Social sustainability is given, if work within a society and the related institutional arrangements satisfy an extended set of human needs [and] are shaped in a way that nature and its reproductive capabilities are preserved over a long period of time and the normative claims of social justice, human dignity and participation are fulfilled”. (Littig and Griesler 2005)

The weakest spot of this definition is the “quality of life” which is regarded as a definite standard for the society and country as a whole, ignoring the subjective content of the “quality” and leaving behind the individual’s perception of the quality

of life and its individual needs to raise the quality of life. Moreover, the definition indirectly emphasizes local, or in the best case – regional approach, which includes the quality of life of a society of some definite country, which often is attained at the expense of deteriorating the quality of life of other social groups and/or population of other countries. Walking in the leash of this definition enables the more wealthy economies to proceed pushing on their economic growth plans disregarding the absolute limits of natural resources.

M. Polèse and R. Stren focus in their definition of social sustainability notion on environmental urbanization, defining social sustainability as

Development (and/or growth) that is compatible with harmonious evolution of civil society, fostering an environment conducive to the compatible cohabitation of culturally and socially diverse groups while at the same time encouraging social integration, with improvements in the quality of life for all segments of the population. (Polèse and Stren 2000)

In this definition, the author seeks to solve social sustainability issues within the framework of closed and isolated social system, which might be boundaries of a country. Besides, the efforts to raise the quality of life for all segments of the population do not match the challenges posed by the economic globalization and free natural resources movement facilities. Such a definition might be applied to the situation characteristic for the world in early 80ties of the previous century. Now the society must face the absolute inflexibility of the biological resources supply, besides, the destructive impact of countries of diverse development level on the regeneration capacity of renewable natural resources should be taken into account, as the latter keeps reducing from year to year.

Interesting approach in defining social sustainability was demonstrated by the city of Vancouver in Canada, the notion is explained in its development documents as follows:

“...for a community to function and be sustainable, the basic needs of its residents must be met. A socially sustainable community must have the ability to maintain and build on its own resources and have the resiliency to prevent and/or address problems in the future.” (City of Vancouver 2005)

Although the problem definition offered to the inhabitants of the City of Vancouver treats sustainable development as a status rather than an incessant development process, it contains the following significant traits:

- social sustainability in this definition pertains to satisfaction of the basic needs of all inhabitants of the city, thus the sustainability concept is filled by definite contents;
- limited resources are allotted for maintaining social sustainability, which means that the satisfaction level of basic needs is indirectly put a cap on – the resources at the city’s disposal and only more effective and innovative use of these resources offer chances to raise overall quality of life of the city population.

Many authors escape to provide definition of social sustainable development, by merely pointing out some of its aspects, necessary to be included in this concept. As the most significant, the following activities are listed (Bramely et al. 2006, Baines and Morgan 2004, Sinner et al. 2004):

- enhance personal responsibility, including the social responsibility for preserving the facility to successive generations to satisfy their needs;
- providing equal opportunities to individuals from different social groups and persons with special needs;
- providing each individual an opportunity to satisfy their basic social and economic needs;
- contribute to the quantitative and qualitative growth of the social capital, expanding its accessibility to each individual;
- raise the public tolerance to individuals and social groups of differing cultures;
- maintain social equality in the society and equal distribution of the resources at the public disposal.

Taking into account the definitions listed and evaluated above, the identified deficiencies and good elements, the definition of the notion “sustainable social development” is offered as follows:

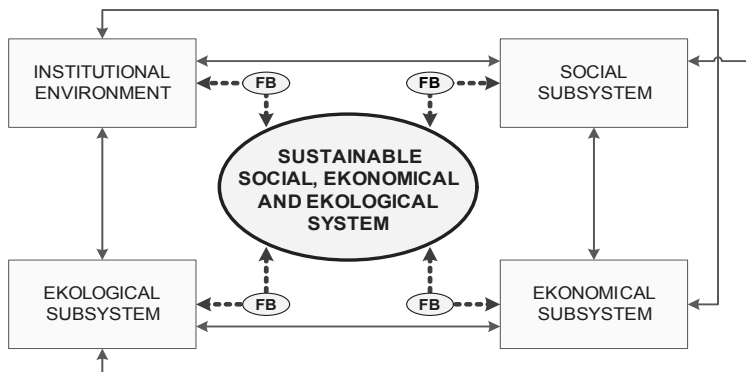
*“**sustainable social development** – a continuous process of interaction between individuals and social groups, where the resources involved in satisfaction of the basic social needs of individuals do not reduce the regeneration capacity of renewable resources and do not infringe the opportunities of other social groups to satisfy their development.”*

The definition developed by the authors attempts to eliminate the vagueness in the sustainability definitions prevailing in the academic and public environment, regarding the unlimited needs of various social groups in space and time, replacing them by “*basic needs*” or “*fundamental needs*”. The other major aspect – the definition includes the statement of awareness of the absolute limits of resources used for public needs. It means that the availability of resources on the global scale is not determined by the demand price of resources as it has been until now, but the necessity to retain the biological capacity of the globe, which preserves the ability of regeneration of natural resources. By ignoring this aspect, society would return to the environmentally degrading scenario with the advanced economies dominating the economic and political space, thus contributing to furthering the destructive attitude to biological resources. The third aspect – consolidation of basic needs - means that satisfaction of the basic needs of a community and individuals requires a definite quantity and quality of resources, limited in space and time. This awareness of the global limits of natural resources, on the one hand, and being aware of the correspondence between the goods and services that are necessary for satisfaction of the basic needs and the available (renewable and non-renewable) amount of resources, on the other, provide new possibilities of sustaining the Globe as a healthy living place for the generations to come.

Systemic approach in integration of social aspects into the sustainable development concept

One of the most widespread errors that may be encountered in the institutional and academic environment is the mechanic approach to solving sustainable development problems. For instance, efforts to minimize pollution of the surrounding environment, the measures taken to minimize CO₂ gas in the atmosphere, increase of renewable energy resource ratio in the energy production, improvement of energy efficiency of buildings and a whole range of other activities are appreciated. It is a lot more than the never ending rhetoric about ecologic disasters and sustainable development. But, these measures taken do not actually solve the issue – the destructive impact of business operations on the surrounding environment continues to grow in intensity and the regeneration capacity of biological resources constantly drops.

Studies of a number of authors reveal efforts to overly simplify the sustainable development idea and such an approach to solving the social, economic and ecologic problems of the world. (Brandl 2002, Baines and Morgan 2004, Sinner et al 2004) For instance, Sebastian Brandl includes in the sustainable concept relations forming between two systems – the social and the ecologic system (Brandl 2002), ignoring the system of economy, the direct impact of which is considerably larger than that of the social system when compared. Besides, it should be noted that social and economic systems have different goals and they do not match the goals of the ecologic system, therefore detachment of these systems separate perception just contributes to the existing and builds new obstacles to solutions of sustainable development problems. Littig B. and Griesler E. believe that the sustainable development concept should include 3 separate systems – social, economic and ecological. (Littig and Griesler 2005) This approach for the major part accounts for the failures lasting for the past 30 years to materialize the sustainable development ideas.



Legend: FB – feedback

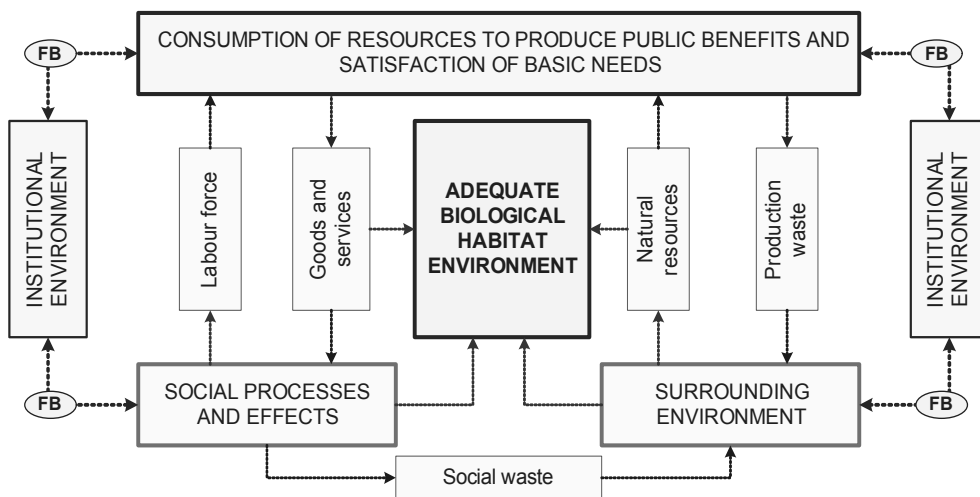
Source – developed by the authors, on the basis of (Vanags, Geipele, Mote 2009)

Figure 1. Sustainable development model of a social, economic and ecological system

Solution to the social and ecological problems accumulated within the sustainable development is found in a systemic approach, model of which is depicted in Figure 1. Four elements are included in the sustainable development system – social, economic and ecological environmental subsystems, as well as institutional environment, which, in this case, acts as a subsystem to the political system on the national and global level.

The elements included in the system are interrelated, they interact and each of the elements determines the quantitative and qualitative aspects of the processes within the system. In the authors' opinion, a sustainable development system oriented on maintaining the balance between the human and environment interaction, its theoretical study and following the obtained conclusions in political and business decision making may provide the thrust required to solve the sore social and ecological problems in various countries of the world. It is important to note here that development criteria are defined for the whole system and each element of the system (Vanags, Geipele, Mote 2009), and the decisive condition in developing, implementing and monitoring them is the maintenance of the regenerating capability of the environmental biologic capacity and application of the economic potential of the world's countries in addressing the sore social sustainability issues, focusing on qualitative rather than quantitative aspects of growth.

The functional interaction model of the elements included in the sustainable development system provides a deeper insight in the interrelation between these elements, as well as formation of the habitat required for social and ecological sustainability (*Figure 2*).



Legend: FB – feedback

Figure 2. The functional interaction model of the sustainable development system elements

Source – developed by the authors

The elements included in the sustainable development system – social, economic and institutional elements being in mutual interaction with the ecological system and functioning in a deliberately established institutional environment can secure the attainment of system's goals – establish and maintain an adequate biological habitat for the human, and preservation of the biodiversity and the biological capacity of the Earth.

The model clearly demonstrates the close relation of the social processes and the surrounding environment to the consumption of resources for production of public benefits within an economic subsystem, as well as the discharge of production and social waste into the surrounding environment, thus endangering the ability of the ecological system to reproduce the resources required for human existence in the adequate quantity and quality. The operation of the institutional environment – performance of state institutions' functions and modernization of governmental powers also uses the surrounding environment and social resources. Important to note that the institutional environment has a particular mission here – it develops a common goal for the social, ecologic and economic system, which corresponds the nature of the sustainable development concept – awareness of the limited amount of resource consumption for satisfaction of the major social basic needs within the sustainability context. Besides, the attributes of the institutional environment – laws, other regulatory enactments, monitoring the situation, timely identification of non-compliance and study of its causes, as well as preventive and corrective actions for each particular situation serve to secure the compliance of functional interaction of the elements included in the system to the sustainable development goals of the system. For this purpose, the feedback options of the system are effectively used. The necessity for an adequate institutional environment becomes very acute in order to maintain the sustainable social and ecological development.

Contemplating establishment of a social sustainable development system, and practical operation of it, it is important to be aware that in sustainable development there are no country borders as established by the civilization. Likewise, there are no limits to the ecologic system of the world – no country can or will be capable to provide the oxygen, freshwater and other ecologic elements required for its existence in isolation from the biologic system elements located in other parts of the world. The quantitative and qualitative aspects of the world's social problems make increasingly clearer indications that solutions are to be sought outside any administrative boundaries. Therefore, a sustainable development model cannot actually be built within the boundaries of a particular country, as it is improbable to cut the ecologic system of the world in pieces and stand aside from exchange of resources and goods among countries. But, citizens and governments of each country are able to contribute to promoting the sustainable development in the world.

Conclusions

The study has been conducted of the major aspects of sustainable social development within the framework of sustainable development, and the following conclusions are made.

- 1) The focus on social aspects of the sustainable development is largely driven by the progressing degradation of the surrounding environment and reduction of the regeneration capacity of renewable resources in the human habitat, thus causing social problems of global scale – the poverty prevailing in the world, high infant mortality, low educational level, growing diversity in income levels and the prevailing injustice in satisfying the basic needs of individuals.
- 2) Global improvements in minimization of some social problems may not be regarded a sufficient positive effect on the global scale – the destructive attitude of the human in its business activity towards biological resources continues with increasing intensity, reducing their regeneration capacity on the global scale.
- 3) Aggravation of social and ecologic problems largely pertains to the incomppliance of the institutional environment to global challenges, which stimulates wasteful attitude towards the limited natural resources. The aid provided to underdeveloped countries cannot halt the deterioration of the living conditions as a result of increasing consumption of natural resources.
- 4) "Materialization" of the concept of sustainable development is largely impeded by the utopian feasibility of satisfaction of the needs of the current generation without obstructing the next generations' ones embedded in the classic understanding of the concept. Such approach does not conform to the natural ways of the market economy, where the criterion for limiting the needs is the budget of the economic subject, on the one hand, and prices of resources and goods, on the other hand. It is important not to exclude from sustainable development social aspects like the basic needs, more equal accessibility to resources and more equitable distribution of social wealth.
- 5) When addressing the swollen social problems, it is important to be aware of the social sustainability as a concept integrated horizontally and vertically, formation of the qualitative and quantitative aspects of which involves the individuals and the social groups themselves; and their mutual interaction generates positive and negative, material and intangible side effects both within the boundaries of a particular country and on the global, international level. The internal and external institutional environment plays a huge role in this process, the governments of countries and international unions, their involvement, more deliberate and more effective, is crucial to minimize the social problems prevailing in countries of different development level, which jeopardize essentially the goals of sustainable development.

- 6) In order to update the social aspects within the sustainable development concept, it is important to pin down the notions “social” and “sustainable social development”, where the current explanations tend to be very diverse and allow too lax interpretation criteria, which impedes materializing these notions in definite measures and institutional instruments, within boundaries of a particular country as well as international relations.
- 7) The definition developed by the authors attempts to eliminate the vagueness in the sustainability definitions prevailing in the academic and public environment, regarding the unlimited needs of various social groups in space and time, replacing them by “basic needs” or “fundamental needs”. This definition includes the statement of awareness of the absolute limits of resources used for public needs. The decisive role of the price in availability of resources on the global scale should be underpinned by adequate reforms in the external trade system and other institutional measures, focused on maintaining the ability of regeneration of natural resources.
- 8) The worked-up sustainable development system, oriented on maintaining the balance between the human and environment interaction, its theoretical study and following the obtained conclusions in political and business decision making may provide the thrust required to solve the sore social and ecological problems in various countries of the world. Within the system management framework, major development criteria were defined for the goal of the system and each element of the system, and the decisive condition in developing, implementing and monitoring them is the maintenance of the regenerating capability of the environmental biologic capacity and application of the economic potential of the world’s countries in addressing the sore social sustainability issues, focusing on qualitative rather than quantitative aspects of growth.
- 9) The main obstacle to maintaining sustainable social and ecological development is the conservative institutional setting, the contents and forms of which are not relevant for diminishing the destructive effect that the economic globalization has on the environment and for the necessity of maintaining the capacity of reproduction of the biological system. Being aware of the global limitations of natural resources, on the one hand, and being aware of the correspondence between the goods and services that are necessary for satisfaction of the basic needs and the available renewable and non-renewable amount of resources, provide new possibilities of sustaining the Globe as a healthy living place for the generations to come.

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PRECONDITIONS OF THE BIODIVERSITY PROTECTION IN THE CONTEXT OF INTERACTION DEVELOPMENT BETWEEN URBAN AND RURAL AREAS IN LATVIA

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Abstract

Latvia is famous for its forests and natural grasslands, the Baltic Sea coast and wetlands. In particular, it boasts with a beautiful country estate parks, household's decorative gardens and urban tree avenues. It provides to Latvia the special attraction. In Latvia the same as in the world the preservation of the natural wealth for present and future generations is recognized as one of the priorities in area of nature protection. Taking into account an actuality of the appreciation of the natural wealth of Latvia as well as its reasonable use in the context of sustainable development the following aim is defined to the scientific paper – to provide research in area of the interaction development between urban and rural areas in the context of preservation of the Latvian natural diversity. The study is based on the following research methods – historical method, monographic and logically constructive method, analysis and synthesis method, research of the legislative acts and experts' opinion assessment. Consequently the study of the preconditions of the conservation of the Latvian natural diversity in the context of the interaction development between urban and rural areas is provided.

Keywords: *interaction development, natural diversity, natural wealth, rural areas, urban areas.*

Introduction

Human life and his or her business activities and the economic and social processes associated with it are provided within a specific environment. From this point of view, human settlements – urban and rural areas are seen as units of the geographical area of the state that are formed by the interaction between human and nature. Human's everyday life and its social, economic, technological, innovative, cultural etc. processes are closely related to the human settlements. From the point of view of economics and management science human settlements are seen as driving force. Because of the positive impact that has the growth of the human settlements on the socio-economic and spatial development of the surrounding areas in the scale of region or state.

World practice shows that planning and management of the development of human settlements is closely related to the assessment, projection and planning of the development of the various industries of the national economy. Therefore, it requires a complex approach, the inclusion at the strategic and operational development plans of the different sectors as well as harmonization of the interests of the different stakeholders, including the interaction development between human settlements and their surrounding environment.

The necessity for the implementation of the analysis of the impact of the development of the human settlements on the environment as well as study of the solution for the prevention of the man-made irreversible environmental degradation changes provides an actuality of the scientific research. The aim of the study is to provide research in area of the interaction development between urban and rural areas in the context of preservation of the Latvian natural diversity. In order to achieve the set aim the following research objectives are defined:

- to explore the importance of the Latvian natural diversity for the promotion of the socio-economic and spatial development of the state;
- to analyze the traditions of the management of natural resources and natural wealth conservation in Latvia;
- to provide an overview of the diversity of the unique natural beauty and ecological values of the Latvian rural areas;
- to study an ecological aspects of the development of the urban areas;
- to evaluate tendency of the natural resource consumption in the urban areas;
- to develop proposals for the improvement of the protection and conservation of the natural diversity in the context of the interaction development between urban and rural areas in Latvia.

The research hypothesis – identification of the ecological dimension of the interaction between urban and rural areas, its quantitative and qualitative measurement could enhance the opportunities of the improvement of the protection and conservation of the natural diversity of the state. The study is based on the following research methods –

historical method, monographic and logically constructive method, analysis and synthesis method, research of the legislative acts and experts' opinion assessment.

Latvian natural diversity – significant national heritage

Republic of Latvia is located on the map near the geographical centre of the Europe. According to Central Statistical Bureau in October 2010, 64 559 km² large Latvian territory was inhabited by 2,248 millions of residents. Average population density is 35 inhabitants per 1 km² of area of Latvia – is lower than in the most European Union countries but higher than in Scandinavia and Estonia. (Latvijas Republikas ģeogrāfiskais stāvoklis 2010, Administratīvais iedalījums un iedzīvotāju blīvums 2010)

Latvia is bordered in the west and northwest by the Baltic Sea and the Gulf of Riga. Nearly the half of the national territory covered by forests, mainly pine covered, 10,0% – swamps. Most of the marsh areas are relatively untouched by human activities. There are about 12,4 thousands rivers and streams with a total length of more than 37,0 thousand km in Latvia. Lakes and artificial water bodies occupy 1,7% of the territory of Latvia. Overall there are 2,2 thousands lakes and water reservoirs that area exceeds 1,0 ha. Latgale region is often called the land of blue lakes has one lake for every 10 km².

Latvia could boast with the longest (~400 km) sandy beach in Europe – one of the most beautiful freely available beach. It provides an opportunity to sport and to relax actively, to take part in traditional inshore fishing, to enjoy a beautiful sunrise and sunset. The nature of coast differs in along the length – broad beaches, dunes overgrown by pine trees and abrupt sandy shore. (Latvijas vides pārskats 2001)

One of the Latvian characteristics is a wide range of terrain forms and soil type spectrum that provides habitat diversity. Very peculiar shape of the terrain is a valley of the major of the Latvian rivers. While the heights don't have a great altitude, they are scenically diverse areas in Latvia. Coastal lowland area that occupies the coast of the Baltic Sea and the Gulf of Riga substantially differs from the rest of the territory of Latvia. Appropriate circumstances for the nesting and recreation during the passage time for the waterfowl in the lagoon lakes existing in these areas are formed. (Pilāts 2000)

Biodiversity and the unique shape of the terrain, scenic landscapes and ancient geological formations – these are just some of the confirmation of the natural wealth of Latvia. Latvian natural territories and objects are created by human activities and natural processes over the long period of time. They show the historical and contemporary relationship between human and nature. They also characterize the following aspects of the development of the society in the state:

- the traditions of the land use;
- the characteristics of the human settlements in time and in space;
- the lifestyle and sectors of the business activities of the local residents;

- the cultural and spiritual life of the society;
- people's interests, aesthetic beliefs and functional values etc.

Geographic location of the state, nearness of the Baltic Sea as well as weather, terrain and hydrological conditions provide the beauty and the diversity of the Latvian nature. Human business activities that take the following forms have a significant impact on the process of the nature conservation and natural resource use (Latvijas vides pārskats 2001):

- an extraction and use of the natural resources;
- creation and development of the human settlements;
- construction and management of the housing;
- land use for the need of agriculture, forestry, industry and other sectors of the state economy etc.

An extraction, processing and use at the state economy of the following significant natural resources provide the satisfaction of the growing needs of the residents of the Republic of Latvia for comfort, standard of living and mobility:

- **water resources** – Latvia is rich with water resources which fully satisfy the needs of the nature conservation and the development of the state economy. Surface water takes 2,5 thousands km² or 3,7% of the national territory. The groundwater resources of Latvia is quite large compared to the level of consumption (Vide un ilgtspējīga attīstība 2010);
- **forest resources** – forest covers 2,9 millions ha of the national territory. In comparison with many European countries Latvia is among the countries rich in forest resources. Timber resources fully ensure domestic consumption and allows to export the wood and wood products making a major contribution to the Latvian economy (Latvijas vides pārskats 2001, Vide un ilgtspējīga attīstība 2010);
- **energy resources** – at the process of the energy generation Latvia predominantly uses fossil resources – oil and natural gas. The most important resources of the renewable energy in Latvia are wood and water. There are available significant peat resources in Latvia. Energy of wind and biogas is used. It is also possible to use solar energy. However these forms of energy at the process of the energy producing are currently limited (Latvijas ilgtspējīgas attīstības stratēģija līdz 2030. gadam 2010);
- **land resources** – agricultural land occupies approximately 40,0% of the territory of Latvia. Most of the fields, meadows and gardens are located in Zemgale plain, river valleys and highland flat slopes. Approximately 43,0% of the national territory of Latvia is covered with forests and scrub, which have remained marginal land. While 10,0% of the state territory is occupied by swamps (Vide un ilgtspējīga attīstība 2010);
- **mineral resources** – widespread and relatively well-explored mineral resources are the main Latvian mineral range. Partly renewable peat and non-renewable construction and raw materials' resources (incl. gravel, sand,

dolomite etc.) have a significant impact on the national economy (Latvijas vides pārskats 2001);

- **soil resources** – like in other countries also in Latvia soil is one of the most important natural resources that has a unique feature – fertility. Soil fertility is one of the key factors that provide conservation of the biodiversity of the territory of Latvia as well as characteristics of the national land use (incl. agricultural production, forestry, construction etc.). (Vide un ilgtspējīga attīstība 2010)

Analyzing the above mentioned Latvian natural resources it is important to note that the use and the management of these resources provide the natural advantages of the Republic of Latvia for the socio-economic and spatial growth in the Baltic Sea Region and in the European Union. This situation could be characterized also by the principles of the use, management and conservation of the natural diversity of Latvia as an important resource for development of the state that have been implemented in the previous planning periods and are implemented now.

From the historical point of view the development of the Latvian society and economy has always been closely related to the ideas of the improvement of the efficiency of use of the national natural resources and wealth.

Nowadays principles of the sustainable management of the natural resources and wealth, including natural diversity, gain an active support from the Latvian society. Currently the green areas of Latvia are popular places for hiking as well as places for the research, discovery and admiration of the country's natural diversity for both local inhabitants and foreign tourists.

“Latvian nature is one of the greatest treasures, which are currently not being adequately used as a tourism resource, although it has great potential. This is an opportunity not only to attract foreign tourists, but also to educate the Latvian people,” – was indicated in March 2011 in Riga at the opening of the Baltic Nature Tourism Conference that was the first in Latvia such a large-scale joint event for the professionals of environmental protection and the tourism promotion industry.

It should be noted in this context that the national forests and parks, urban gardens and greenery of the city canal banks, country meadows and sandy beach – are the place where people come to enjoy beauty of the Latvian nature – to listen rustling of trees and birds songs, to have a breath of fresh air and aroma of flowers, to admire the beauty of the landscape and to feel the change of seasons, to relax and to get new ideas.

Based on the global socio-economic and ecological world trends and their impact on the national development as well as exploring the current situation in the management of the Latvian natural resources, Sustainable Development Strategy of Latvia until 2030 – “*Latvia 2030*” was developed and approved by the Latvian Parliament in June 10, 2010. At present it is hierarchically the highest long-term development planning document of the Republic of Latvia that sets out Latvian national development prospects. As one of the long-term development priorities of the Republic of Latvia at the above mentioned

strategy is identified sustainable development of the national nature treasures and services. The aim of the development is to promote the process of becoming the leader of the European Union in area of conservation, increase and sustainable management of the natural capital. In order to achieve the above mentioned strategic aim of the development of the Republic of Latvia various objectives including planning and implementation of the nature conservation throughout the territory of the country are defined. This issue in detail is studied in the next section of the research paper.

Traditions of the nature conservation in Latvia

Latvia has a long tradition of the nature conservation. In the opinion of historians, for the ancient inhabitants of Latvia nature has always been an object of worship. The ancient Latvians worshiped and adored not only Gods decision-makers, the Gods of fate and fertility but also deities of the nature and natural forces since they have a significant impact on the human life and well-being. This is shown by folk tales, folk songs and commonly found sacred springs, groves, trees, stones and other sacred places in Latvia. (Vide un ilgtspējīga attīstība 2010)

An attitude of the ancient Latvian citizens towards the environment is reflected in many Latvian folk songs preserved until nowadays. From ancient times people who inhabited Latvia considered themselves as a part of the nature next to animals, plants, water and land. Exploration of the fragile links between man and nature shows that respect for nature as well as its protection and conservation always has been one of the fundamental ethical principles of the Latvian society. (Kļaviņš, Nikodemus, Segliņš 2008) The ancient Latvians always have tried to live according to the laws of nature and to respect the existing natural rhythm and the order of things of the environment where they lived and conducted their business activities. An attitude of the previous generation of the Latvian society towards nature and natural processes reflects the foresight of the local population in development of the relationships with the environment. Our ancestors realized that their lifestyle, everyday business activities and values of life directly or indirectly refers to the development of the human settlements in the future. It is important to note that nowadays at the range of the issues addressed to the environment protection are both human and nature. Conservation and management of the natural treasures and resources, protection of the species and habitats, planning of the local development projects and landscapes' ecological planning is a part of them. (Īpaši aizsargājamās dabas teritorijas 2011)

Currently Latvia has a strong and stable system of the specially protected nature territories that provides state-level protection for 12,1% of the state territory. All specially protected nature territories in Latvia shall be marked on site with a special informative sign, the sample and the procedures for development and use of which are specified in Regulation of the No. 264 *“General Regulations on Protection and Use of*

Specially Protected Nature Territories” adopted by the Cabinet of the Ministers of the Republic of Latvia on March 16, 2010. The special informative sign for marking of a specially protected nature territories is schematically shown in Figure 1.



Figure 1. The special informative sign for making of a specially protected nature territories (Īpaši aizsargājamo dabas teritoriju vispārējie aizsardzības un izmantošanas noteikumi 2010)

As shown in Figure 1, the special informative sign for marking of a protection territory shall be a green square field surrounded by a white frame with a stylised oak leaf pictogram. It was put into use to provide a common style of the representation of the specially protected nature territories throughout the Republic of Latvia. It is expected that a common style of the representation of the specially protected nature territories will promote identification of the Latvian specially protected nature territories around the world. The Nature Protection Board in co-operation with the relevant self-government shall develop (prepare) and place the signs.

Specially protected nature territories in Latvia are established, protected and managed for the following purposes (Likums “Par īpaši aizsargājamām dabas teritorijām” 1993):

- to safeguard and maintain biodiversity of nature, including the following treasures of the Latvian nature:
 - rare and typical ecosystems,
 - habitats for rare species,
 - landscapes, that are peculiar, beautiful and characteristic for Latvia,
 - geological and geo-morphological formations;
- to ensure supervision of scientific research and the environment;
- to provide preservation of territories significant for the recreation, education and instruction of society.

According to the Law of the Republic of Latvia “*On Specially Protected Nature Territories*” protected territories shall be categorised as follows (Īpaši aizsargājamās

dabas teritorijas 2011, Likums "Par īpaši aizsargājamām dabas teritorijām" 1993, Noteikumi par aizsargājamām jūras teritorijām 2010):

- **strict nature reserves** – Teiču, Krustkalni, Moricsalas, Grīņu strict nature reserves, etc.;
- **national parks** – Gauja, Ķemeru, Rāznas and Slīteres national parks;
- **biosphere reserves** – Ziemeļvidzemes biosphere reserve;
- **nature parks** – Abavas Valley, Daugavas Circles, Engures lake, Svētes floodland, Talsu hillock, etc.;
- **nature monuments** – are separate, isolated natural formations: protected trees, dendrological plantings, avenues, geological and geo-morphological nature monuments and other natural rarities having scientific, cultural and historical, aesthetic or ecological value;
- **nature reserves** – Alsungas forests, Burtnieku lake meadows, Lubāna wetland, Mežmuižas springs, Zvārde, etc.;
- **protected sea territories** – Akmensrags, Irbes strait, West coast of Gulf of Riga, Ainaži-Salacgrīva, etc.;
- **protected landscape areas** – Augšdaugava, Kaučers, Nīcgales forests, Vec-laicene, Vestiena, Ziemeļgauja, etc.

For the providing of the conservation of the species and habitats that are located outside of specially protected nature territories the micro reserves are established (Likums "Par īpaši aizsargājamām dabas teritorijām" 1993). According to the Law of the Republic of Latvia "*On Specially Protected Nature Territories*" land in the specially protected nature territories may be owned by the State, local governments as well as by natural persons and legal persons. Land owners and users in protected territories have the right to tax concessions specified in regulatory enactments. Land owners also have the right to compensation specified by law regarding restrictions on economic activity in protected territories, including in the cases specified by law – the right receive compensation or to request the exchange of the land belonging to them for land of equivalent value owned by the State or local governments.

Taking into considerations that rural areas take approximately 97,0% of the state territory, provision of the conservation (incl. protection and management) of the specially protected nature territories is extended more to the preservation of the natural diversity in rural areas and their natural treasures. (Administratīvais iedalījums un iedzīvotāju blīvums 2010, Špoģis 2002) This issue in detail is studied in the next section of the research paper.

Latvian rural areas – the store of the natural treasures

Latvian countryside has always been a place where the magic of nature has been reflected. Latvian rural areas are the mirror of country's natural beauty and

biodiversity consisting of the following components (Padomdevējs lauku tūrisma uzņēmējiem ilgtspējīgai saimniekošanai NATURA 2000 teritorijās 2010):

- **the mosaic type of landscapes** that alternates with forests, rivers, lakes, marshes, sea coasts;
- **the agricultural lands, farms, etc.;**
- **the elements of biodiversity** – habitats, plants, animals and species of other organisms;
- **specially protected nature territories** and NATURA 2000 areas and micro-reserves that are designated for the protection of specially rare species and their habitats.

Particular value of Latvian rural areas is a picturesque landscape that is a human living environment, resources for tourism development and foundation for the diversity of population business activities in rural areas [14]. A typical Latvian landscape is a mosaic of vast forests alternating with fields, farmsteads, and pastures; amid arable land are birch groves and wooded clusters, which afford a habitat for numerous plants and animals. Very often it is difficult to mark a boundary between meadows and forests in the mosaic of the Latvian rural landscapes. Old oaks, limes, pines growing at the meadows complement the mosaic of the rural landscapes. These trees form natural parks and forests. Territories that now are officially registered as a forest mostly are meadows converted to forestry areas during the last century; Currently overgrown scrub, grassland, oxbow lakes, elongated lakes and wooded quaking complement mosaic. (Lārmanis 2006)

Nowadays the landscape is an important part of the quality of life for people everywhere: in urban areas and in the countryside, in degraded areas as well as in areas of high quality, in areas recognised as being of outstanding beauty as well as everyday areas. It is stressed in the European Landscape Convention that *“the landscape contributes to the formation of local cultures and that it is a basic component of the European natural and cultural heritage, contributing to human well-being and consolidation of the European identity.”* (Eiropas ainavu konvencija 2010) This means that providing planning and management of the development of rural areas special attention should be paid to conservation and protection of the biodiversity of rural landscape. As world practice shows development in agriculture, forestry, industrial and mineral production techniques and in regional planning, town planning, transport, infrastructure, tourism and recreation and, at a more general level, changes in the world economy are in many cases accelerating the transformation of landscapes. Diversity and attractiveness of the rural landscapes of Latvia should become one of the priorities of the ecological development of the state territory. This will serve as one of the possibilities of the attraction of residents and tourists to the Latvian rural areas. Thus it will have the positive effect not only on the conservation of the natural treasures of the rural areas but also on the socio-economic and spatial development of the countryside.

Taking into consideration that geographical space of the Latvian state is formed by two interrelated elements – rural and urban areas, for the completed sense about the preconditions of the conservation of the Latvian natural diversity in the context of the interaction of the development of the human settlements it is important to analyze ecological aspects of the urban development. This issue in detail is studied in the next section of the research paper.

Ecological aspects of the urban development

More people now live in urban than in rural areas. It is stressed in the report published by the United Nations Population Fund “*State of World Population 2007: Unleashing the Potential of Urban Growth*” that in 2008, the world reaches an invisible but momentous milestone: for the first time in history, more than half its human population, 3,3 billion people, will be living in urban areas. By 2030, this is expected to swell to almost 5,0 billion. (Martine, Marshall, Leidl, et al. 2007) This indicates that the long-term socio-economic process of urbanization with its population and industrial concentration in urban areas, growth of the urban population and growth of urban areas will be preserved.

Despite of the fact that one of the aim of the modern cities is to satisfy dwellers' needs and wishes as well as to provide high level social, economic and ecological quality of life urban areas are becoming sources of the major ecological problems. Cities are developed in interaction between human and nature. Peoples are constantly trying to adapt the environment in urban areas in accordance to their socio-economic needs.

Analyzing characteristics and tendencies of the development of the urban environment it could be concluded that very often people transforming environment in accordance to their understanding and vision about the living conditions and the quality of life cause the following irreversible changes that degrade the environment (Глобальный доклад о населённых пунктах 2011 года “Города и изменение климата: направления стратегии”. Программа ООН по населённым пунктам 2011):

- **on the ground of the urbanization process the use of the land is changed as well as land cover is changed.** Due to the urbanization process agricultural and forest land is being gradually transformed into built-up areas. Natural land cover is replaced by the concrete and paved areas, natural shoreline of the rivers and lakes – concreting coasts. As a result the drainage system of the city is completely changed. The process of suburbanization that could be seen all over the world increases urban areas but decreases green areas. Thus green areas that have previously absorbed the greenhouse gases cleaning the air are reduced. Consequently, the reduction of the green areas promotes climate change and urban pollution. While the expansion of the urban areas city

dwellers travel longer distances using various types of transportation. As a result consumption of the energy is increased;

- **change of the land cover affects movement of water and natural substances in the urban ecosystems.** Usually precipitation from the most parts of the city areas gets into watercourses and water bodies through rain water drainage system. It increases the runoff from the urban areas, because of the reducing of the total amount of water that is evaporated. This causes increase of the flooding threat not only in urban areas but also in the surrounding territories. The moisture of the soil at the exposed urban areas is decreased. Wherewithal desert conditions are formed in the cities in summer period and plants suffer from the scarcity of water. They could get water only from the deeper groundwater. In other parts of the cities during the process of the building houses and streets natural drainage system is not taken into account. So these areas become bogged up;
- **characteristics of the consumption of the goods and services by the city dwellers promote changes in the development of the rural areas and agriculture.** For insuring compliance with ever-increasing customers' expectations and needs, companies operating in the cities as well as city dwellers relies more and more stringent requirements to farms, forestry, fisheries, etc. outside the border of the city.

Steady and stable long-term development of the society harmonises the growth of the cities. Contrary rapid transformation of the social and economic conditions promotes significant changes in the process of the urban development. Sometimes rapid urban growth processes have highly aggressive affect on both – people and environment. Socio-economic and ecological problems of the 20th century highlighted that negative impact of the human activities on the environment (urbanization, industrial and agricultural production, accumulation of the household waste, etc.) could make human living environment hazardous as well as lead to a rather abrupt extinction of the resources (primarily non-renewable) or degradation of their quality. (Kļaviņš, Nikodemus, Segliņš 2008)

Features of the global ecological crisis that became highlighted at the end of the 20th century and at the beginning of the 21st century are schematically shown in Figure 2.

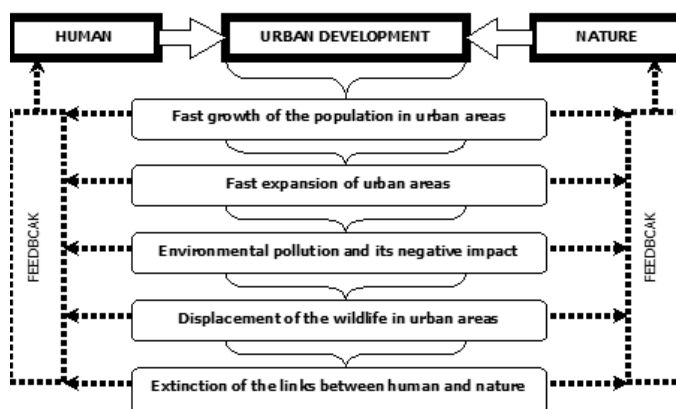


Figure 2. Global ecological problems related to the urban development
[Authors' construction]

As shown in Figure 2, cities developed by the interaction between human and nature promote cyclical nature environmental problems that are based on increase of the number of inhabitants and density of population in urban areas. It determines the transformation of the cities to urbanized areas with tens millions inhabitants. Increase of the number of inhabitants promotes suburbanization process that negatively affects the environment and the landscape in urban areas as well as in surrounding areas. The increase of the environmental pollution in cities, promotes the negative impact on the environment and human health. Disregard of the existing natural regularities in the process of the development of urban areas brings replacement of the wildlife from the cities, replacement of the natural landscapes with man-made artificial landscapes. It causes human moving away from the nature. This is reflected as lack of the visual, sound, smell, tactile sense as well as the replacement of the natural sensor with negative artificial sensors. These processes have a negative effect on the human nature – physical, emotional and intellectual biorhythms (increased lighting at night, noise, night work instead of at night sleeping, etc.).

Analyzing previously provided cyclical nature environmental problems related to the development of the urban areas, their causes and consequences it could be concluded that human impact on the environment could take the following forms (Kļaviņš, Nikodemus, Segliņš 2008):

- **local impact** – accumulation of the waste, soil pollution, etc.;
- **regional impact** – formation of acid precipitation, sea pollution, etc.;
- **global impact** (degradation of the environment) – climate change, global warming, decrease of the ozone concentration in stratosphere, biodiversity loss, etc.

Thus ecological problems affect not only human health, as people live in polluted urban environment, health of the future generations, but also other living organisms, the biosphere, atmosphere and the Earth's natural ongoing process in general. (Kļaviņš, Nikodemus, Segliņš 2008)

In scientists opinion due to the growing expectations and needs of the city dwellers, modern lifestyle, technological progress, human activity has become so active factor that has an impact on the environment that has not been seen since the emergence of life on Earth. This issue in detail is studied in the next section of the research paper.

Tendency of the natural resource consumption in the urban areas

Modern urban areas consume significant amount of the natural resources and have a serious impact on the environment that extends across city boundaries. Taking into account that modern cities are one of the major consumers of the natural resources, the model for evaluation of the flow of the natural resources that are necessary for the functioning and development of the urban areas is developed and is schematically shown in Figure 3.

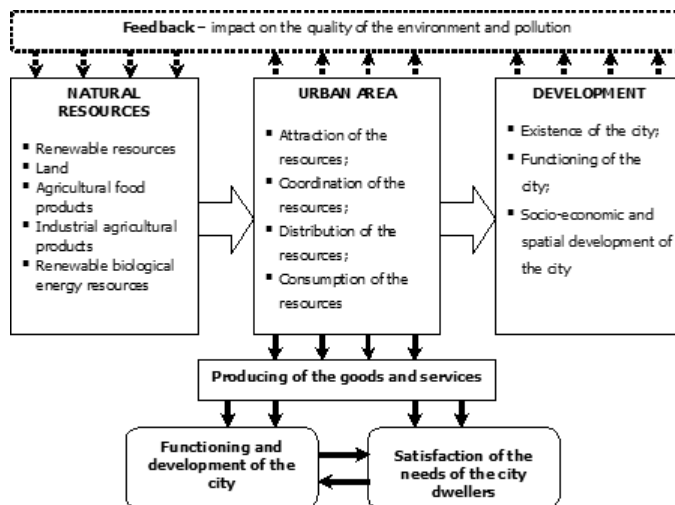


Figure 3. Model of evaluation of the flow of the natural resources that are necessary for the functioning and development of the city [Authors' construction]

As shown in Figure 3, environment provides urban areas with the benefits that during the production process with the help of the energy are transformed into goods and services that are necessary for the functioning and development of the cities and satisfying of the needs of the city dwellers. At the end of the life cycle these manufactured products return

back to the environment in the form of waste. It affects the quality of the environment, amount of the waste and pollution, possibilities of the restoration of the nature, soil fertility, etc.

Based on the fact that functioning and development of the each of the modern cities depends on the borrowing of the external natural resources and its use efficiency, it could be stressed out the following characteristics of the urban system:

- totality of the natural resources that are necessary for the functioning and development of the urban areas its quality and utilization potential describes cities;
- attraction, combination and coordination of the natural resources that are necessary for the functioning and development of the urban areas are realized for the achieving of the common goals;
- common goals of the attraction, combination and coordination of the natural resources that are necessary for the functioning and development of the urban areas are identified based on the priorities of the socio-economic and spatial development of the state.

As the result of the use and conversion of the natural resources that are necessary for the functioning and development of the urban areas public welfare urban socio-economic and spatial development are promoted. However, it also affects the environment, causing pollution, environmental degradation and natural resource depletion. These negative processes are aligned to the feedback of the process of meeting of the needs of urban citizens. It represents a complex nature of the flows of the resources that are necessary for the functioning and development of the modern cities.

Analyzing opportunities of the improvement of the flows of the natural resources that are necessary for the functioning and development of the urban areas the following aims to be met in the near future are defined (Resursu patēriņa novērtējums 2004):

- efficient use of the non-renewable resources, replacing them with renewable resources where it is possible;
- harmonization of the using of the renewable resources with the opportunities of the formation and regeneration of the resources (the rate of the turnover speed of the substance);
- linking together cycle of the resources turnover with the natural turnover cycles.

In order to achieve the above mentioned set aims it is necessary to provide evaluation of the existing situation and identification of the necessary improvements in the following resources' flows' management's sectors that are linked to the urban development:

- **management of the water resources** in the city \leftrightarrow management of sewage in the city (household, industrial, precipitation);
- **management of the energy resources** in the city \leftrightarrow management of the thermal waste (thermal loss) in the city;
- **management of the air resources** in the city \leftrightarrow management of used air and air pollution (exhaust gas, dust) in the city;

- **management of the flows of the raw materials** and consumer goods in the city \leftrightarrow management of the waste (household, industrial, precipitation) in the city;
- **management of the land resources** in the city \leftrightarrow management of the degraded and polluted land areas in the city;
- **management of the green areas** (biodiversity resources) in the city \leftrightarrow management of the transformed and built-up areas in the city.

Finally it could be concluded that one of the preconditions of the development of the modern human settlements is providing of the complex approach to the planning and management of the influent and effluent flows linked with the existence of the urban and rural areas. Such approach provides identification of the ecological dimension of the interaction between urban and rural areas as well as provides opportunity for the quantitative and qualitative measurement. Thereby the opportunities of the improvement of the protection and conservation of the natural diversity of the state could be improved that confirm the research hypothesis.

Conclusions

The following conclusions can be drawn from the results of the above mentioned scientific research in area of the interaction development between urban and rural areas in the context of preservation of the Latvian natural diversity:

- urban and rural areas at the process of the formation of the interaction between human and nature are constantly changing. It happens under influence of the transformation of the social, economic and environmental conditions. Significant changes at the development of the human settlements that could influence the quality of urban and rural environment create issues and opportunities of the development of the human settlements in the near and distant future;
- taking into account that there are no two similar human settlements it is necessary to identify individual path to sustainable development for each urban or rural area. Consequently realizing the elaboration of the guidelines for sustainable development of human settlements it is important to take into account needs of each urban or rural areas' dwellers, national characteristics as well as unique cultural, architectural and natural values;
- nowadays influence of the human settlements as well their impact on the environment is not limited only with administrative boundaries. Interaction between urban and rural areas as well as interaction between human settlements and environment affects people's lifestyle and quality of life, development of the spatial structure, conservation of the natural diversity, etc. It is indicative of connection between the process of the growth of human settlements and regional development as well as nature protection activities in the state;
- for the support of the promotion of the sustainable development of the human settlements it is necessary to provide more active participation of the state and

municipal institutions at process of the improvement of the quality of life in urban and rural areas as well as development of the human settlements in Latvia. Environmental problems, air quality, traffic jams, noise pollution, urban sprawl, greenhouse emissions, waste and sewage – these are the components of the quality of life in the modern human settlements. These components influence state's natural diversity. Therefore for the conservation of the natural treasures of urban and rural areas in Latvia in the context of sustainable development it is vitally important to provide systems approach to solving ecological problems.

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ASSESSMENT CONFORMITY OF CONSTRUCTION SUSTAINABILITY IN VARIOUS PHASES OF BUSINESS CYCLE

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Abstract

In last decade has devoted increasing consideration of scientists, engineers, ecologists and economists to construction sustainability and conformity of construction products to requirements of conception of sustainable development. In the construction industry the produced buildings and other constructions form provide a material technical basis for other economic sectors. Buildings and other construction products have great an extent on such fundamental aspects of sustainability as energy consumption, maintenance costs, emission CO₂ and other noxious gases, as well as degradation of surrounding environment. Up to now, less notice is given to matters of sustainable development of the construction as process of production of different construction products both on micro and macro level. Effectiveness of using resources by construction companies shapes the “backbone” of sustainable development process of the construction industry. In various phases of the economy development cycle not only the demanded and produced volumes as well as a price of construction products are changing. In period of growth of economy, favourable conditions give construction merchants an ability to increase profit to spent part of them for activities to reduce utilized resources in a unit of produced construction unity and accordingly decrease production costs. That shapes the economical and technical basis of competitiveness for construction entrepreneurs, which is necessary to overcome non-conformity between demand and supply that has arisen during economy recession. For the purpose of maintaining competitiveness in conditions of recession, businesses are forced to implement measures of increasing efficiency of utilization disposal resources more

actively, by fitting in main conditions of sustainable development of national economy. The aim of the research is the assessment conformity of sustainability construction business in various phases of cycle economical development in Latvia. Hypothesis of the research – entrepreneurs in construction business not carry out measures for increasing production efficiency in spite of favourable conditions that shapes in phase of economy development boom. To reach the research aim followed investigation methods are used – induction and deduction methods, reference methods, analyze and syntheses methods, as well as appropriate mathematical methods.

Keywords: *sustainability, construction, competitiveness, phase of economy development boom.*

Negative influence aspects of Construction on the ecology

Researchers of environmental and construction processes have found that influence of construction and construction products on the environment is characterized by 37 various aspects, from continues increase of built-up land area to waste created by constructions and degradation of the environment. (Gangoellis 2009) It creates broad possibilities to acquire more precise and equitable knowledge in relation to potential influence of projected building on the environment in the very beginning of this process – in phase of design of the respective structure. That approach provides including of environmentally friendly building materials, as well as minimizing potential environmental impact in phase of exploitation and maintenance in projected construction. About 1,3 billion tons of waste is produced annually in the European Union, of which 510 million tons can be referred to construction, i.e. 1,13 tons per capita and 1,03 tons per 1000 EUR of the manufactured production. In Latvia, 87% from the hazardous waste caused since 2002 is related to construction. (Waste in Europa 2005)

According to a study of the US Department of Energy on the construction process, operation and management of the finished constructions consume 39% of the energy resources used in the country annually, 68% of electric power, 12% of water and create 38% of the CO₂ emissions in the country. (US department of Energy 2010) In the United Kingdom various constructions are produced about 50% of the CO₂ emission volume, the constructions consume 50% of the total amount of water used in economic activity and produce 30% of solid waste. 27% of the total CO₂ emissions in the country form at homes, and from this amount, 73% come from heating of homes and water heating. (UK HM Government 2008) In order to lessen the destructive impact of constructions on the environment, scientific studies are performed in the United Kingdom about the possible solutions, so that such buildings, from which the created CO₂ gas would not reach the atmosphere, would be built in 2016. The first experimental buildings, inside which the created carbon dioxide is fully absorbed, were built already in 2009. (Guardian 2009)

Ecological scientists in USA has enquired that amount of CO₂ created by operations of economical un social activities reaches 7,2 milj.t., of which 2,5 milj.t originates in different types structures, exceeding emissions in transport system by 0,51 million ton or 25,4%. It is clarified that 50% of noxious gases has originated in buildings and 70% of total amount of nature destructive gases has generated in the cities with populations over 5 millions. Staying and working in buildings, employees in enterprises, public organizations and state institutions as well as members of households consumes more than 70% of total amount of electricity, including electricity consumption for maintenance of buildings. Made calculations prove that taken measures in the field of increasing energy efficiency of buildings creates a possibility to decrease emission of CO₂ more than 6 million ton. (Kats 2003) The amount of noxious gases created by enterprises of manufacture and construction industries in EU countries exceeds 4 million ton. (Eurostat 2010)

Resources consumption in Construction industry and buildings

Environmental impact of construction is closely related to huge amount of recourses utilized in production of different houses and other structures. The construction industry utilizes 25% of the raw materials consumed in national economy. (UK HM Government 2008) Approximately 15 millions of economical active population is engaged in construction in EU countries which participate in production different construction products in volume more than 552 billion Euro. (Stavinska A 2010) In different countries worldwide construction consumes 66% of the saw timber cut down in forests, the industry exerts a lot of pressure on consumption of non-ferrous metals. The most worries are caused by increase in consumption of zinc and copper in construction, as reserves of these materials are estimated for the next 30 years. Volume of metals used annually in construction in various countries worldwide ranges from 1 to 8 tons per capita. Metal processing and repeated use decreases metal consumption by 90% and enables to save up 70% of the power that is necessary to manufacture the necessary volume of metal by usage of metallic ores. (Loskwood 2008.)

In comparison with ES-15 and other most developed countries of the world, the buildings that are built in Latvia have the considerably lower power efficiency and other indices of destructive impact on the environment. Thus, 5,2 thousand GWh of thermal energy were supplied to households in 2009, of which only 2,7 GWh or 53,4% were used efficiently, in its turn 32,7% of electric power is consumed inexpediently in homes. (Vanags, Nevoļskis 2009) The utmost losses of thermal energy can be referred to the low efficiency of usage of the supplied energy in most part of homes. Consumption of thermal energy annually in apartments and other types of homes built on the territory of Latvia ranges from 220–250 kWh/m², but for homes with high power efficiency this

parameter does not exceed 60–120 kWh/m². Consumption of thermal energy in the passive houses built in Finland is within 20–30 kWh/m², which is the highest standard fixed energy consumption. For multi-storey blocks of flats of conventional construction built in Finland the consumption of thermal energy does not exceed 70 kWh/m². (Holopainen 2008) Comparatively low level of energy efficiency in constructed buildings in Latvia facilitate emission of green house gases and pollution of environmental. If level of creation noxious gases in processes of consumption of resources in phase of production construction products is comparably low, than produced buildings and their utilization for economical, social, public and other purpose are closely connected with considerable level of negative side effects of degradation of surrounding environment. Finland's experience in construction of power efficient homes convincingly proves existing reserves for decreasing consumption of energy in Latvia and many other European countries.

The concept of sustainable construction

For the purpose environment protection and to maintain ability of natural resources to renew, conception of the so-called “sustainable development” is made topical. In the framework of it, more attention is paid not only to reducing the negative impact of production of various goods and the transport system on the environment, but also to optimization of consumption of goods and services and to increasing efficiency of the resources usage. In the set of these measures, a significant role is played by sustainable construction and sustainable buildings. The uncertainty and contradictory nature comprised by the concept of sustainable development gives a favorable ground for wide discussions about sustainable existence and development content of the construction industry and the products produced in it.

The international construction research organization “*Conseil International Batiment*” (Kibert 2008) defines the concept “sustainable construction” in the following wording:

*“**sustainable construction** – a process of creating a building that is applicable for the provided purposes and that is environmentally friendly, in operation and management of which high efficiency of resource usage is ensured.”*

This definition does not take into account construction undertaker and the owner of the building competence in a sustainable building production and in the features of life-cycle of a sustainable building. In construction, unlike other national economy sectors, unique products are produced. Those products completely correspond with the client's requirements that are included in the building's technical documentation. For that reason the above mentioned definition is largely referable to the concept of a sustainable building rather than sustainable construction.

The definition drawn up by the European Union demonstrates unspecific and superficial approach to revelation of content of sustainable construction, indicating that

“sustainable construction – dynamic process of new solutions of the developer, investor, manufacturer of building materials, constructions and equipment, service provider and other involved parties where environmental, social-economic and cultural development objectives are taken into account.”
(EC Report of Sustainable Construction 2006)

It is visible in the EU definition that politicians are willing to lay responsibility for environment protection issues and achievement of social-economic development objectives on the shoulders of merchants. Comparison of operating objectives of an undertaker to environmental, social-economic and cultural development objectives indicate to a formal approach to issues of development of sustainable construction.

Activists of idea of green construction in Latvia offer more precise explanation of concept “sustainable construction” in redaction as follows:

“green or sustainable construction – specific kind of construction that supports on nature conservancy in processes of construction, exploitation and maintenance of constructed buildings according costumer needs and with respects of needs for future generations. The sustainable construction is process that encompasses modern technical and technological solutions as well as building materials that facilitate construction of environmentally friendly buildings with high demand of energo efficiency and healthy environment microclimate.” (Zaļā būvniecība 2007)

In this definition more attention has played for such aspects of sustainable development as conservancy attitude to nature; energy efficiency of buildings; modern technology and building materials, as well as respect of need for future generations. But authors of the definition has combined construction as process production of buildings and buildings as result of construction process in one concept “sustainable construction” what isn’t acceptable in academic environment.

Considering the significance of concepts of sustainable construction and sustainable building in development of the construction industry and the entire national economy, achievement of the public social-economic development goals, and existing functional, economically technical and legal differences in those concepts, explanation of the concept of sustainable construction is proposed in the following wording:

“sustainable construction – process of designing construction projects, placement, production and demolition of a building, which ensures conformity of the finished product with the criteria of sustainable development, technical documentation and other regulatory enactments with regard to safety, harmlessness of the production process and the finished product, high efficiency of using resources at one’s disposal, a possibly minimal impact on the environment.”

The definition strictly marks off the construction process from the further operation of the building after the construction process is finished and the buildings are transferred to

its owner and user. In the definition it is taken into account that the construction industry is included in the regulated area of business activity, sustainability requirements or criteria of the construction process are set in the respective regulatory enactments.

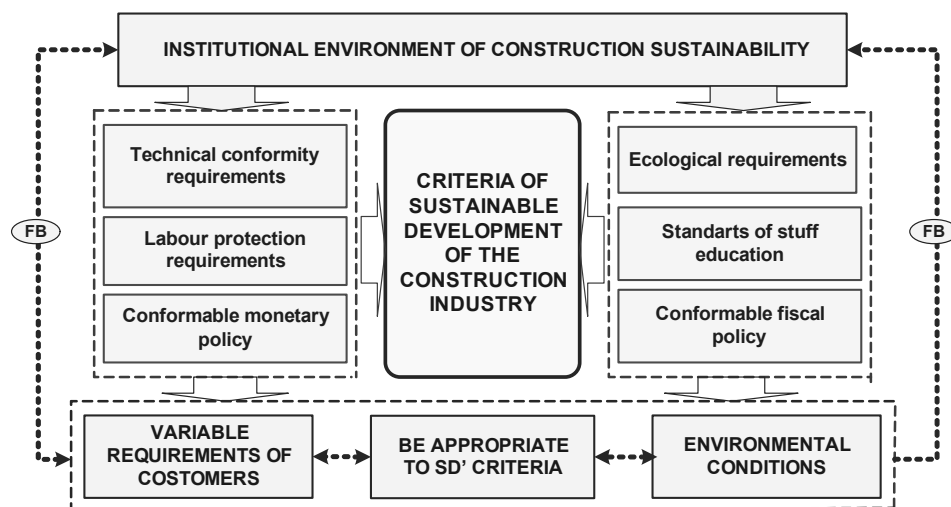
Preconditions that are included in the project and regulatory enactments for a sustainable building to meet the functional requirements in accordance with main conditions and criteria of sustainable development during its operation are created in the construction process. However, the owner and/or user of the building is economically and ecologically responsible for continuous increase in efficiency of using resources involved in operation and management of a building. It is important to separate the borderline between the builder and user of the building in the definition of sustainable building, laying it out in the following wording:

“sustainable construction product – building, in production of which requirements of regulatory enactments were met with regard to safety and harmlessness of the production process, the constructive elements and technological solutions included in it enable to ensure high efficiency of using resources and a minimal possible impact on the environment during operation and management of the building, as well as conformity with other criteria of sustainable development.”

Evidently, in the definition of sustainable construction product, emphasis is made on the possibilities created in the construction process to use resources more effectively and safely with a minimum possible destructive impact on the environment. The requirements included in the definition are combined with other criteria of sustainable development that are changing along with changes in mechanical physical and ecological properties of construction materials, construction technologies, environment condition and renovation ability of natural resources. (Vanags, Geipele, Mote 2010) Exactly the criteria of sustainable development that are included in the respective regulatory enactments of a country is one of the most relevant aspects in increasing power efficiency of the raised buildings and in implementing other conditions necessary for sustainable development in construction.

Models of construction sustainability

Considering the above mentioned definitions, models of sustainable construction and construction products are developed, revealing the existing differences and the options to favour sustainable development of national economy and the entire state. Taking into account that the concept “construction” in wider meaning includes the construction industry, the public authorities supervising of the construction industry, construction merchants and nongovernmental organization of builders, within framework of the study the focus is on construction, its national economy sector and on construction company as producer of construction products. In development of the models, systemic approach is used to tackle sustainable development problems on a local, national, international and global level. (Vanags, Geipele, Mote 2010)



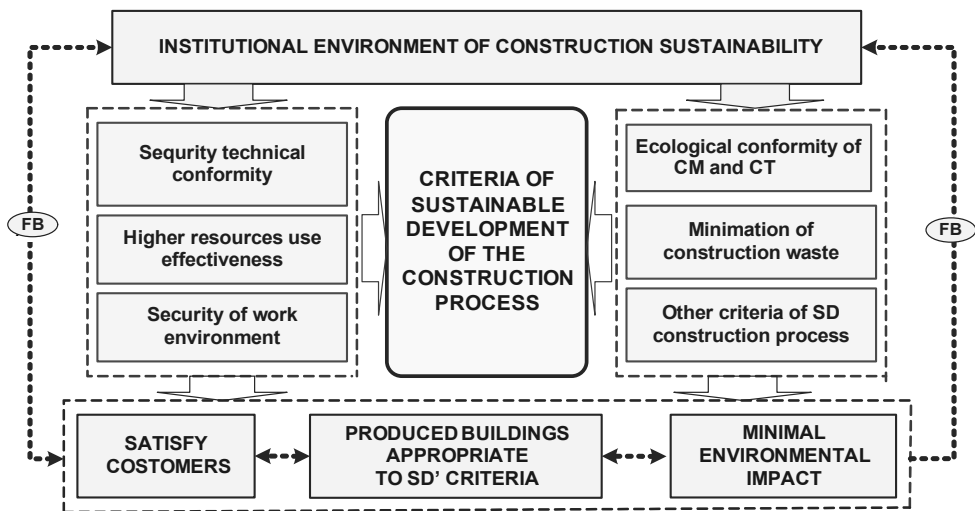
Explanation of the abbreviations – FB – Feedback; SD – Sustainable Development

Source – Developed by authors

Figure 1. Functional model of sustainable development of construction industry

As it shown on the model incorporated in Fig. 1, the basics of sustainable construction are formed by a national policy of sustainable construction development and the consequent criteria of sustainable development of the construction industry. Up to now the most attention in national policy of construction is paid to technical conformity requirements that are included in various standards, construction regulations and other regulatory enactments. It is demonstrated in the model that criteria of sustainable development of the Construction industry take shape in the view of technical and labor protection and ecological requirements of construction work. An effective monetary and fiscal policy is added to them, as it enables the construction industry to retain nature of sustainable development, by avoiding unreasonably rapid growth and the recession following it. In this case, comparatively high conformity of the total increase in construction product and increase in demand is implemented in framework of an effective monetary and fiscal policy, thus enabling to maintain slight price fluctuations for the produced construction products and stability of development of the industry.

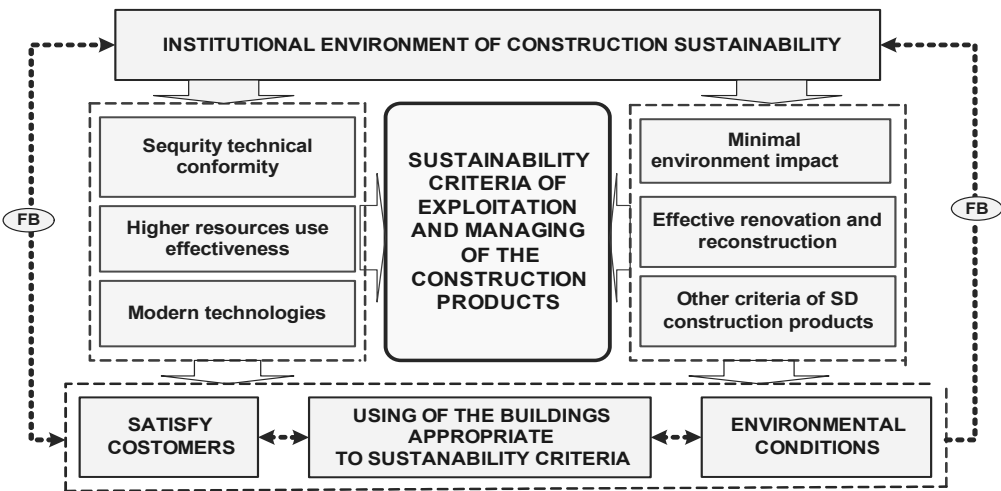
Sustainable development criteria of construction process take shape in the view of the requirements that establish conformity of manufacturing process of construction products with technical, social, ecological and economic requirements shown on Fig. 2. These requirements are largely related to sustainable development policy of the construction industry implemented by the country and determination of a construction company to participate in processes that are aimed to continuous improvement of working conditions in construction, increase of efficiency of using resources at one's disposal, and retaining of ability of natural resources to renew.



Explanation of the abbreviations – CM – Construction materials; CT – Construction technologies; FB – Feedback; SD – Sustainable Development

Source – Developed by authors

Figure 2. Functional model of sustainability of construction process



Explanation of the abbreviations – CM – Construction materials; CT – Construction technologies; FB – Feedback; SD – Sustainable Development

Source – Developed by authors

Figure 3. Functional model of sustainability exploitation and managing of construction products

As visible from the model incorporated on Fig. 3, sustainable usage criteria of various buildings take shape on the basis of sustainable development policy of the national economy. These criteria apply to possibilities to continuously update the used technologies and to increase efficiency of using resources in economic activity processes that are performed in the respective building, as well as in operation, reconstruction, renovation and demolition of the respective building. That enables to increase production of goods and services with the national economy subject and the resources at disposal of the entire society. A significant criterion of a sustainable building is conformity of the working environment and microclimate with the physiological requirements of people. It is aimed to reduce sickness rate of the ones employed in construction, and to increase labor productivity and quality. The criterion “minimal influence on the environment” includes the requirements fixed by regulatory enactments regarding reduction of environmentally harmful gas emissions and other waste in operation and management of a building, including construction waste that result from demolition of the respective building.

As follows from the models included in the above figures, the criteria of sustainable development of construction and construction business and usage of sustainable building are constantly changing, along with changes in results of scientific researches, development of engineering and technologies, condition of the environment, and in the view of constantly changing requirements of clients. With the help of feedback, these aspects and the changes that have taken place in them are included in the sustainable development policy of national economy and construction industry in order to timely make the necessary changes in regulatory enactments and to make corrections in the national monetary and fiscal policy corresponding with the situation.

In the further layout of the study, the main attention is devoted to sustainable development of the Latvian construction industry in relation to changes in efficiency of usage of resources that are at disposal of merchants working in the industry, trends of these changes in period of rapid growth and recession of economy.

Dynamic of efficiency of utilization resources in construction industry

The further part of the study is devoted to the most significant sustainable development aspect of construction – changes in efficiency of usage of resources at disposal in Latvia. A unique situation was observed in the national economy during the last 5–7 years. In the period from year 2004 until year 2008, value of the goods and services produced in the country increased by 2,2 times, but the amount increased only by 30,7% (LV CSP 2011), assuming that in this time no fundamental changes have happened in range of the produced goods and services.

Considerably the most dynamic changes in the period of time from year 2003 until 2010 have taken place in the construction industry, causing sharp changes in efficiency of using resources at disposal of the merchants working in the industry. The statistical data and calculation results characterizing the period of rapid growth and recession are included in the Table 1.

Table 1

Period of rapid growth and recession in Latvia economy

| Indicators | Changes in intensity of indicators by years, % | | | | | | | | Fluctuation Range, % |
|-------------------------------|--|-------|-------|-------|-------|-------|--------|--------|----------------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | |
| GDP in the actual prices | 11,02 | 16,29 | 21,85 | 23,32 | 32,30 | 9,53 | -19,18 | -1,50 | 51,48 |
| GDP in the comparative prices | 7,19 | 8,68 | 10,60 | 12,23 | 9,98 | -4,24 | -17,95 | -1,25 | 30,19 |
| CP in the actual prices | 11,67 | 20,76 | 26,64 | 47,92 | 62,09 | 11,26 | -40,36 | -24,00 | 102,45 |
| CP in the comparative prices | 13,72 | 13,33 | 15,46 | 21,50 | 15,73 | -2,62 | -33,57 | -27,00 | 55,07 |

Explanation of the abbreviations – CP – Construction product.

Source – Developed by authors according data of Latvia's Statistics (LV CSP, 2011)

Growth of the Latvian national economy in the period of time from year 2003 until year 2007 has reached an increase dynamic that is unprecedented in the history. Intensity of value increase of goods and services produced in the state in the actual prices in this period has increased from 11,0% in 2003 to 32,5% in 2007. In the comparative prices the GDP increase is considerably lower, accordingly 7,2% and 12,2%, which is referable to 2003 and 2006. Recession in the national economy started in 2008 when volume of the production decreased by 4,2%. Top intensity of recession in the national economy was reached in 2009 when volume of production and product taxes in the actual prices decreased by 19,2%, but in comparative prices – by 18,0%. To evaluate intensity of fluctuation, showing of fluctuation range is used – on the level of national economy it reaches 51,5%, which is the highest result in the entire European Union (Stavinska 2010) and does not correspond with basic conditions of sustainable development on macro level. (Vanags, Geipele, Mote 2010)

The unprecedented fast increase of internal demand sharply increased profitability in several business areas and caused resonance of demand in various national economy sectors, increasing demand for construction products and the following supply. Already in 2004, production intensity of the construction product evaluated in the actual prices increased nearly twice compared to 2003, reaching 20,8%, although in the actual prices the increase intensity remains in the level reached in the last year. The sharpest increase rate was recognized in 2006 and 2007 when the construction product in the actual prices increased accordingly by 47,9% and 62,1%, but in the comparative prices – by 21,5% and 15,7%. Therefore, intensity results of the Latvian construction industry beat the

growth rate registered in the European Union. (Stavinska A., 2010.; Eurostat, 2010; Eurostat, 2008) The rapid growth was followed by recession of similar nature, which reached culmination in 2009 when the produced construction product in the actual prices decreased by 40,4%, but in the comparative prices – by 33,6%. Recession trends in the construction industry lasted also in 2010, as the produced construction product volume decreased by 27% and in terms of value by 24%, considerably surpassing intensity of recession in other national economy sectors in 2010. (LV CSP 2011)

Higher rate of increase in production of construction product in the period of rapid growth was caused by the increasing nonconformity with the total demand and supply of construction product. Construction companies, unable to offer the volume of the construction product in demand, raised the sale price, thus ensuring parity between demand and supply. For maintenance of market balance in the period of time after 2003, price increase of the produced goods facilitated sharp increase in profit of construction merchants, creating favourable conditions to increase labour productivity and efficiency of using the assets of construction companies.

The indicators included in Table 2 demonstrate how these favourable conditions were used so that Latvian construction companies would incorporate in their operation the most significant condition of sustainable development and would increase efficiency of using the disposal resources.

In the calculations of efficiency of using resources at disposal of merchants, the negative effect of price increase on efficiency of using resources is reduced to the utmost, but calculation of utilization efficiency of construction materials and fixed assets are affected by structural changes in these resource groups and qualitative changes in content of the construction product.

Table 2

Changes in efficiency of utilization resources in Construction industry

| Indicators used resources in Construction | Intensity of changes in resource usage efficiency showings by years, % | | | | | | | | Fluctuation Range, % |
|---|--|-------|-------|-------|-------|-------|-------|------|----------------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | |
| Fixed assets and other long-term investments | -4,1 | -15,4 | -20,1 | -9,6 | -13,5 | 3,8 | 6,8 | 0,5 | 26,9 |
| Construction materials and other current assets | -18,7 | -25,2 | -31,3 | -23,1 | -9,0 | 7,5 | 35,5 | 17,3 | 66,8 |
| Total assets | -13,7 | -22,1 | -28,1 | -19,7 | -10,2 | 6,5 | 26,4 | 11,4 | 54,5 |
| Labour | -7,83 | -2,86 | 10,74 | 5,83 | -4,26 | -2,55 | 10,14 | 5,26 | 18,57 |

Source – Developed by authors according data of Latvia's Statistics (LV CSP, 2011)

As follows from the showings comprised by table 2, utilization efficiency of resources included in assets are decreasing as the production intensity of the construction

product increases. Utilization efficiency of fixed assets that are included in the fixed assets and other long-term investments shows a negative increase rate value already in 2003, decreasing by 4,1% in comparison with the level reached in 2003. In the further years of rapid growth, usage efficiency of the capital at disposal of merchants continues declining, reaching the sharpest decrease of 20,1% and 13,5% accordingly in 2005 and 2007. Along with recession, capital usage efficiency starts to rise gradually. A similar trend, with a more dynamic intensity, can be observed in changes of usage efficiency of construction materials and other current assets. Already in 2003 this showing declines by 18,7% compared to previous year's level. In the further 2 years, the calculated values in the comparative prices of construction production to produce a unit, value of the utilized construction materials and other current assets in the prices of 2000 sharply increases and in 2005 the increase rate reaches 31,5%. In the further 2 years the intensity decreases, but efficiency of using construction materials continues to decrease. Only upon recession, in 2008 this showing starts to improve by 7,5%, reaching the top value of 35,5% in 2009.

Considering the absolute limitedness of labor force supply and the hard working conditions in construction, one of the most important showings in sustainable development of construction is increase in labor productivity, which enables to increase the physical volume of the produced construction product within a time unit, thus reducing the production time. As visible from the showing comprised by the Table 2, changes in labour productivity are of sharply changing character, but the common trend remains – as the intensity of the produced construction product increases, the labour productivity decreases. Already in 2003 when volume of the construction product in comparative prices increased by 13%, labor productivity changed in the other direction, decreasing by 7,8%. Even though in 2005 labor productivity returns in the level of 2001 and surpasses it in 2006 by 6% [13], in the next years it decreases again accordingly by 4,3% and 2,6%. The positive changes in labour productivity are observed as the recession grows deeper in 2009 when labor productivity surpasses the level of 2001 by 7%, and this trend lasts also in 2010.

Conclusions

The performed study on sustainable development trends of construction industry in terms of utilization disposal resources in a period of rapid economic development and in conditions of recession leads to the following conclusions.

- 1) In studies on sustainable development of construction, more attention is devoted to conformity of the produced construction product with certain criteria of construction sustainability, yet there are not enough studies on utilization of the disposal resources construction merchants as the most significant aspect for

conformity of the production process of construction products with the main conditions of sustainable development in macro level;

- 2) In the definitions and models developed within the study, the process of sustainable construction is precisely set apart from the product produced in this process, which must correspond with the criteria of sustainable development established in the society. Such approach is related to the necessity to expand the researches on issues that are related to conformity of construction process with the basic principles and criteria of sustainability both on micro and macro level;
- 3) In the period of time from 2003 until 2010, high-intensity economic growth is observed in the Latvian national economy followed by rapid recession, which is accompanied by sharp changes in the results of utilization efficiency of the disposal resources of construction merchants. The period of rapid growth of economy recognized in construction is characteristic of sharp decrease in efficiency of resource utilization, which comes into collision with the basic viewpoints of sustainable development. As recession sets in, efficiency of utilization disposal resources of construction merchants increases;
- 4) Results of the study clearly indicate to a necessity to pay more attention to sustainable development issues on macro level, which would enable governments of different development level to develop and implement more effective measures for conformity of social-economic and ecological processes with the basic viewpoints and criteria of sustainable development, by favouring increase in efficiency of utilization disposal resources of the society and by lessening the destructive impact of economic activity on the environment.

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SCIENCE COMMUNICATION MANAGEMENT IN LATVIA

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Abstract

The present paper deals with the problem of science communication management in Latvia, in general, and with the ways of raising the public awareness, in particular. This especially regards so-called fundamental research. The lack of proper modes of communication results in negative attitudes and has its effect on the financial decisions (what part of the state budget is to be allocated to research). There is no direct correlation, of course, between the level of information and financing, but still we have to admit that the scientific institutions tend to communicate at the scholarly level (congresses, conferences, scientific journals etc.) while paying less attention to public understanding or public engagement. In our opinion, one of the possible solutions is employment of the principles and elements of marketing communication. The purpose of the present paper is to develop proposals for the most effective ways of “marketing” the science in Latvia.

Keywords: *science communication, public understanding of science, public engagement in science and technology, marketing communications.*

Introduction

The problem of science communication is by no means a new matter in the field of academic research as results are to be communicated to the public. If not, an investigative activity could become the solitary work of a possibly great mind. Why possibly? Because if no-one knows about the research and/or discovery it is destined to vanish in thin air and each new generation may have to invent the bicycle all over again and again. The aim of the present article is not to give a historic overview of the problem, but – to describe the changing factors of science communication process, i.e. – the means of communication, the public, and the communicative environment itself, in order to develop possible research tools for the situation analysis in Latvia. It has to be noted, that a systematic research of the field hasn't been accomplished in Latvia until now, therefore, the article refers to the research data of Great Britain regarding public understanding of science. These data try to describe legal background and science organization in Latvia, as well as existing practices. In author's opinion, research

institutions lack awareness of the principles of marketing communications. This seriously affects the public understanding of science and eventually – the financing and co-financing of research grants and projects by the government.

The theoretical framework of the current article consists of the following sources: (A) literature on science communication, science journalism, and science public relations (Irwin, Michael 2003; Burguete, Lam 2008; Tyson 2010; Bauer 2010; Chung 2008; Russel, 2009; Christensen, Bensaude-Vincent 2001); (B) literature on the changing communicative environment (Nowotny, Scott, Gibbons 2001; Towards Knowledge Societies 2005); (C) laws and regulations on scientific activity and scientific institutions and other informative documents issued by the Ministry of Education and Science of the Republic of Latvia. (Law on Scientific Activity 2005; Science in Latvia 2010)

From Public Understanding of Science (PUS) to Public Engagement in Science and Technology (PEST).

PUS (public understanding of science) and PEST (public engagement with science and technology) represent the principal change in the science communication mode over the last few decades. It is important to note that this shift is concurrent with the change of the status of knowledge in society. But before turning to the analysis of the above-mentioned concepts, representing the development of science communication, it is necessary to sketch some features of the phenomenon itself. So what is ‘science communication’? One of the definitions formulated in a double take (like shooting two frames in cinematography) that, it seems, captures the phenomenon at most is given in the report on science communication and public attitudes towards science in Britain and sounds like this: “science communication encompasses communication between: groups within the scientific community; the scientific community and the media; the scientific community and the public; the scientific community and the government; or others in the positions of power and/or authority; the scientific community and those who influence policy”. (Science and the public 2001: 316) Each of these levels requires different channels and different instruments of communication accordingly but, no doubt, they all are of equal importance and they are closely intertwined. Nevertheless, this process is not a simple dissemination of scientific information (in this case it would be unilateral connection that disregards responses and reactions of prospective addressees), “it also requires the identification of “hooks” to connect with people’s everyday lives and concerns so their attention is attracted and information retained. This will allow people to develop awareness of the role of science in their everyday lives and provide them with the information and confidence to contribute to national debates about science policy”. (Science and the public: 317) Thus, while the quotation indicates various target audiences and their different needs, motivations and levels of perception, the second one centres around the ever growing involvement of general public into the decision making processes. On the one hand, this demonstrates the process of “democratization” of the previously elitist endeavour eligible to a few

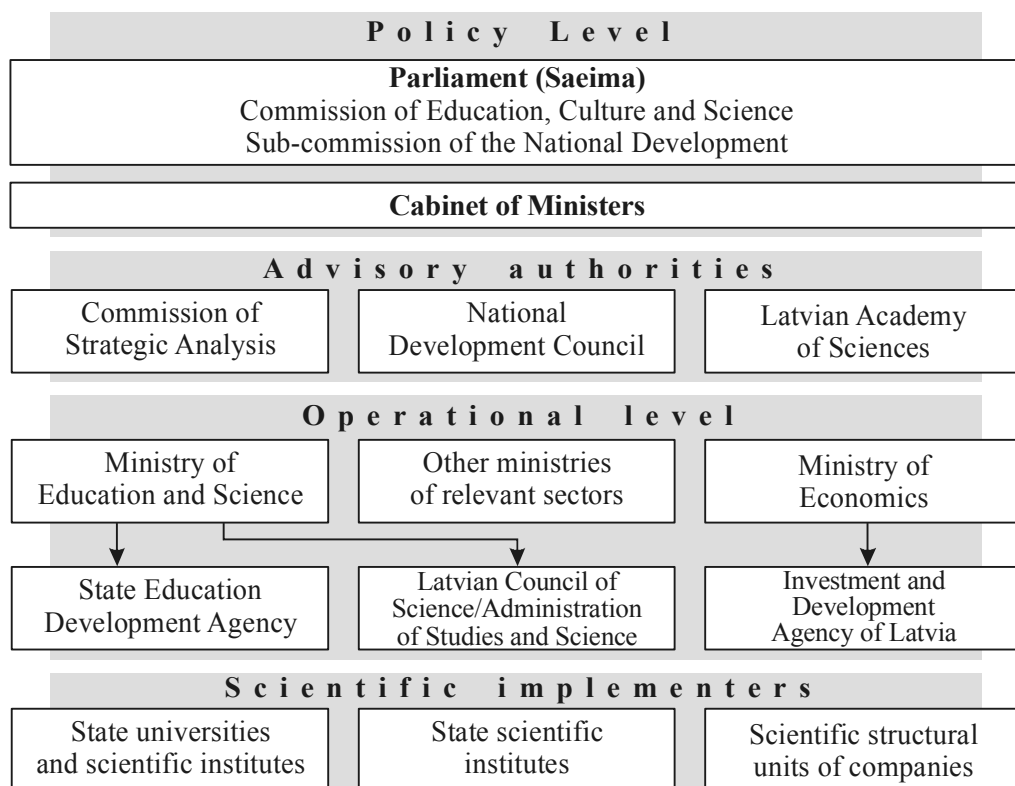
members of society, on the other hand, though, it poses a threat of overt populism. It is especially obvious in the age when blogs and other virtual socialites are densely populating the virtual space. Nevertheless, “the idea of a gap between scientists and the others is a necessary ingredient of our notion of science”. (Bensaude-Vincent 2001: 101) This means that despite the society’s pressures (e.g. everything should be comprehensible for the average citizen) professional performances should not be measured by public appearances and *vox populi*. Of course, if this statement sounds more or less plausible regarding life sciences, it is seemingly not so obvious in the case of social sciences and humanities because here people rather often are apt to express their opinions and pass judgments upon findings. If the first model (“public understanding of science”) represents the so-called “deficiency” model based on the belief that people should be given the missing information or, in other words, people should be educated by somebody more informed. This, in turn, leads to the hierarchical distribution of knowledge, the bi-polar relation: “scholar – average person”. But with the advance of popular science publications, science reports in the daily media, the world science fairs, the development of internet communications etc. such approach of exclusive rights to know and to share the knowledge becomes obsolete as people tend to get more and more involved. This logically leads to the necessity for different, that is, the “engagement” model of science communication. The latter presupposes non-hierarchical knowledge distribution and is based on the principle of inclusion. (Russel 2009) The basis of engagement is a dialogue in its various forms and manifestations – literary, practical etc. The switch from the PUS (public understanding of science) model to the PEST (public engagement in science and technology) model took place in the beginning of the 21st century. “.. public engagement requires mediation, “re-expression” or translation of scientific issues into contexts that mean something to audience”. (Russel 2009: 88) Basically this movement complies with the universal movement towards the knowledge society that is being conceptualized, in general, as merging the old forms of knowledge with the new forms that arise as the result of development of information technologies, knowledge markets and new marketing strategies. (Towards Knowledge Societies 2005; Nowotny, Scott, Gibbons 2001) Despite the emphasis on the technologies and market demands, this new concept of knowledge society encompasses also important social, ethical and political dimensions, including the question of science management. According to the above-mentioned authors, the traditional model of science management is linear – the main decisions are made by industrial organizations, state and scientific institutions and then passed over to the general public, whereas contemporary model is the one of joint decision making. (Towards Knowledge Societies 2005: 121)

Science Organization in Latvia and Statistics

The ground principles of science organization in Latvia are determined by the Law on Scientific Activity adopted in May, 2005. Thus, according to the Law “scientific institutions – scientific institutes, institutions of higher education, commercial companies as well as other institutions in the articles of association, by-law or constitution of which scientific activity and participation in the process of acquiring and improving scientific qualification is provided for and which are registered in the register of scientific institutions. A scientific institution shall have at least five persons with a doctoral degree in science in a direction that conforms to the activities of the scientific institution”. (Law on Scientific Activity 2005) Thus the Law states that there could be several types of scientific institutions, that is the matter of importance for the present investigation of the science communication management in Latvia. In other words, the instruments and channels of communication depend on the fact whether the specific institution deals with commercial or educational projects, or its research activities are of the academic nature mostly. The Law also determines processes of ensuring the scientific activity as it is shown in Table 1.

Table 1

System of Science in Latvia (Science in Latvia, 2010: 15)



So it can be seen that there are several organizational levels in the science system of Latvia – the policy and advisory levels, the operational level as well as the scientific implementers. The Law on Scientific Activity gives the description of rights and specific duties of each structural unit in ensuring the scientific activity as well as their subordination and accountability. The science communication mode (formal or informal, mass or individual, etc.) varies in accordance to the organizational level represented and the number of people involved in the process. Table 2 represents the differentiation of the scientific institutions.

Table 2

Division of Scientific Institutions Registered in the Register of Scientific Institutions (data as of 01.12.2010) (Science in Latvia, 2010: 17)

| Scientific institutions | Number | % |
|---|-----------|-------------|
| 1. Scientific institutes | 82 | 60,3 |
| Public agencies, including state agencies, municipal agencies | 2 | 1,5 |
| Derivative public bodies, including the Latvian Academy of Sciences | 13 | 9,6 |
| Structural units of state higher education establishments | 52 | 38,2 |
| Agencies of state higher education establishments | 15 | 11,0 |
| 2. Higher education establishments, including: | 9 | 6,8 |
| State higher education establishments | 7 | 5,3 |
| Private higher education establishments | 2 | 1,5 |
| 3. Business companies | 19 | 14,3 |
| Total: | 136 | 100,0 |

We may conclude that the distribution of information also depends on the type of scientific institution, namely, if the institute is a part of large organization – the University of Latvia or the Riga Technical University, for example, the means to relay information to the general public differ significantly from the state scientific agencies. This is not to impose any value judgment but rather to admit the fact that various scientific institutes have to think of different ways (may be less expensive and more creative) in order to inform society about their results – books, translations, investigations, etc.

In order to have the primary description of the instruments and channels of science communication the author of the present paper surveyed the web-pages of several scientific institutions and higher educational establishments. It has to be noted that the sole purpose was to get general view; the thorough investigation of the matter is to be carried out in further investigation, so the approach here could be described as sampling. Among the web-pages surveyed there were the ones of the University of Latvia, the Riga Technical University, the Daugavpils University, the Institute of Philosophy and Sociology, the Institute of Latvian History at the University of Latvia. The author of the

present paper came to conclusion that the institutions employ the following activities of science communication: excursions, workshops, scientific shows, popular lectures, demonstrations, debates, scientific cafes, film festivals, concourses, exhibitions, open door days, scientists' nights, popular publications, symposia, publications in the popular scientific magazines and internet sites. So, we can see that there are many activities but the main problem is the lack of data about the target audience that makes it difficult to plan the process of communication and to create the specific message.

Science and the Public – the British Study

The virtual non-existence of any serious study in the field of science communication in Latvia makes it difficult to design the working communication model for the scientific institutions. The task of the present paper is to make the initial investigation of the problem, the study of theoretical literature in order to plan the future research. One of the ways to fill the gap of information is to look at the survey performed in a different country, here at the study of the public attitudes towards science in the United Kingdom. (Science and the public 2001) The research reported in the review sets a baseline for public attitudes towards science, engineering and technology; six attitudinal groups with different socio-economic characteristics were identified. "These results provide a resource for all those who are active in science, engineering, and technology communication who wish to develop their own programs further". (Science and the public 2001: 315) The purpose of the survey was four-fold:

- to identify the components or elements of people's attitudes towards science;
- to identify different attitudinal groups with respect to attitudes towards science;
- to determine whether attitudes vary depending upon the science under discussion;
- to map existing science communication activities based in the UK.

The present research was concerned with the communication of science to nonspecific public, whether via media, the scientific community, the Government of the industry. For the quantitative survey of attitude 1200 people were surveyed using a quota sample method (set on age, gender and social status). People were offered different statements divided in the following groups: attitude towards life, attitude towards science, attitudes towards scientists and engineers, science communication. The main conclusion of the survey was that the British public is not "anti-science" oriented though it didn't demonstrate a strong "pro-science orientation." Still, the main purpose of the survey was the identification of main attitudinal clusters, six altogether. They were mapped in two-dimension space against the four main factors described as interested/uninterested, concerned/confident. More than one-third of all answers were put on the map between the vectors of "interested" and "confident". The next step of the research was to carry out the qualitative research – factor analysis. 40 attitudinal statements were reduced to nine "factors":

- intrinsic interest in science;

- concern over the control and direction of science;
- understanding of the subject;
- appreciation of the benefits from the science;
- attitude towards change and new challenges;
- attitude towards risk;
- attitude towards authority;
- views on the sanctity of nature;
- trust in politicians.

Cluster analysis assigned each respondent to a cluster according to his/her responses to the given statements. Finally, six attitudinal clusters were identified: the Confident Believers, the Technophiles, the Supporters, the Concerned, Not Sure, Not for Me. *The Confident Believers* cluster (17 percent of the sample) is defined by its confident attitude, interest in the topical issues, high level of income and education. They feel that they as individuals are in control. *The Technophiles* (20 percent of the sample) feel confident and being in control; at the same time they tend to be quite sceptical of government; basically their views are positive about science and its benefits. *The Supporters* cluster encompasses 17 percent of all respondents. They are amazed by science and appreciate its benefits. They are not as knowledgeable of science as technophiles, they have less confidence in scientists; but they share with technophiles their scepticism of politicians and public authorities. *The Concerned* – is the smallest cluster (13 percent of the sample) are interested in the topical issues, they are defined by their scepticism of public authorities and of scientists. *Not Sure* – the representatives of this cluster tend to be coming from the households with low-income level, they are rather low educated, do the manual or unskilled labour and/or they are dependent on state benefits. The lack self-confidence and opinions about the wide range of questions. *Not for Me* – the second smallest cluster (15 percent of the total sample); members of this cluster are defined by their relatively old-age profile, lack of interest in science, low income and poor education. They differ from the previous cluster by the fact that they can appreciate science though they are not taking particular interest in it. They are alienated from the political system and share with some other clusters the scepticism of political system. “The mapping research has shown that the UK has an active and diverse science communication community, encompassing scientists, government, industry, and the media. Most activity is based around day trips or evening talks, generating media coverage and, increasingly, providing information on the Internet. For many, however, the targeting, marketing, and evaluation of activities tend to be simplistic and under-funded. There is still an emphasis on events and activities which interest the provider and few events are designed with the aim to actively engage and broaden the audience. Success tends to be measured by numbers attending and quality of experience, rather than by the impact or effect of the activity, especially in the long term”. (Science and the Public 2001: 329) It seems that this main conclusion of the British survey is something that is

especially helpful for the science communication management research in Latvia as, in our opinion; too little attention is being paid to the use of marketing communication practices in order to determine target audiences and to design the best techniques to reach them. Despite the systemic differences between sciences system in the United Kingdom and Latvia we believe that the same division in six attitudinal clusters can be used for the strategic planning of science communication activities.

Conclusions

Although the present paper neither offers any specific solutions to the communication problems nor the strategic communication plan, the author believes that the goals put forward in the introduction are reached – the study of the theoretical literature of the field has been accomplished; the main concepts such as *science communication*, *public understanding of science*, *public engagement in science and technology*, *science marketing*, were clarified. We believe, that the hypothesis that the science communication practices are hindered by the lack of knowledge about and/or negative attitude towards the integrated marketing communication, is substantiated. There was presented an overview of science in Latvia with the aim to distinguish different organizational levels with their respective science communication modes. This sets the stage for the further research of communication of the academic research institutions. The difficulties for this investigation are caused by the fact that there are no data on science communication in Latvia yet. Due to the lack of sufficient funding for all-encompassing survey in Latvia, the author of the present paper proposes to use the results of the attitudinal study in the United Kingdom. In other words, we believe that here, in Latvia we can find the same six clusters with their respective socio-economic and educational characteristics. These clusters are: the Confident Believers, the Technophiles, the Supporters, the Concerned, Not Sure and Not for Me. Keeping in mind this division the author of the present paper proposes to research the methods and channels of communication of the specific research institutions, in this case – the state scientific agencies, such as the Institute of Philosophy and Sociology, the Institute of Latvian History, the Institute of Literature, Folklore and Art, the Institute of Economics and the Institute of Latvian Language. The methods for the further research could be – interviews with the institute directors, media monitoring, and document studies.

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Quality Enhancement in Translation and Interpretation sector

PROBLEMS OF LANGUAGE DEVELOPMENT DURING THE PROCESS OF EDUCATION ARISEN BY THE USE OF PC

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Abstract

In the context of a language, literacy involves the integration of productive and receptive skills and includes the cultural knowledge necessary in communication. Students' linguistic deficit in reading skills has led to failure in summary tests and in vocabulary tests of learners. Linguistic deficit includes shortage of professional and general vocabulary and underdeveloped awareness of language structures. In different areas of speech, including education, concern about reduction of spoken language culture's coherence has become central issue. Low language skills is a serious impediment during the educational process.

The present article is aimed to prove, that avoiding PCs in the classroom and at home improves the literacy and numeracy of the children. Children are now awash with "facts", but don't know what to do with them. Schoolchildren are developing a "problem-solving deficit disorder", and losing the ability to analyze. A better way is to encourage creativity. And the best remedy for this is pen-and-paper affairs.

The pervasive use of advanced technologies and their low cost have reduced hands-on experiences for children, including the simple but overwhelmingly rewarding experience of taking things apart and putting them back together. Without this, technology becomes a mystery, leading to a perspective that might well be called "magic consciousness".

Keywords: *literacy, communication, media technologies, language skills, educational process, handwriting.*

On the Way to the Literacy

The spread of the new media refutes the currently widespread belief that people do not read or write anymore. Never before have there been so many people engaged in writing; however, it is a new type of writing which often does not comply with traditional norms and is unedited. New media blur the clear distinctions between spoken and written language; what emerges is a centaur language – a mixture of

spoken and traditional written language which is used in chats, comments, short messages and e-mails, concludes A. Veisbergs. (2010:14)

T. Williams (2009: 4–110) has investigated how media technologies give the chance for everybody to be ranked in art creators. Not only do new media technologies offer different affordances for each choice made in composing a text, the ability to compose with images, graphics, and video have challenged the traditional print literacy emphasis on linearity in communication. New media technologies have also increased the speed at which texts can be composed, distributed, and read, which in turn influences the ways texts are created.

Language develops differently in different periods, and different language subsystems develop at a different pace – grammar, writing, the lexical core develop slowly (although reforms in writing and changes in the alphabet are possible) while the lexical periphery, terminology and slang develop rapidly. In general, language tends to become grammatically simpler and more streamlined, as well as lexically broader. (Veisbergs 2010: 14)

As Skibitskaya's (2010: 66–67) research shows, the increased interest in this subject recently is due to the realization of low culture in the area of communication. In different areas of speech, including education, observation given marked reduction of spoken language culture's coherence. Low language skills is a serious impediment during the educational process. The complex problem has arisen to get over these shortcomings. Skibitskaya's experiment showed that it was necessary to seek new forms and approaches to improve students' speech culture.

The high level of speech culture – an integral feature of the civilized human being. The concept of good speech includes minimum three features: the richness, precision and expressiveness. To be able to select most suitable certain words and construction for each speech situation, such a speech is considered to be correct. To Skibitskaya's mind that however, is not enough. It may be right, but not consistent with the objectives and conditions of communication.

In Skibitskaya's view, one of the forms is a single orthographic spelling mode, the purpose of which – the implementation of unified requirements for the formation of speech and writing of students of economic universities. Under a single spelling mode, according to Skibitskaya, the complex of inter-related activities (didactic, organizational, methodological, information scope) is aimed at creating a spoken language and a common culture of the participants of the pedagogical process at the university.

Another Russian scholar V. Kostetsky (2010: 41–45) compares the present situation with history of education in the past centuries and discovers a mutation (the same term has mentioned Baldunciks 2008: 26–37) human being's raise is separated from education, then mastery of knowledge is put as a target, which leads to “multi-knowledge”, depletion of which creates a new phenomenon – the “half-knowledge” and, finally, there is a global “semi-education” industry, which covers all levels of

education. The diagnosis “semi-education” characterizes not the amount of knowledge, but its qualitative features: knowledge without a history of this knowledge and without knowledge of its scope.

D. Laiveniece (2006:4) reminds, that for a long time issues concerning text and text development was taught to students as a part of so-called proficient speaking and writing curriculum. Over the course of the school year, text and text development was given an average of 11 to four hours or approximately 55 hours over grades 4–11. Working with text to develop a student’s communicative abilities anticipates text as a part of understanding the learning content and acquisition by developing four active language types. This means that the student listens, speaks, reads, and write while working with text as a communication unit, thus learning text indicators and construction rules, learns text in various functional styles (their genres) and various kinds of texts. Text is a tool as well as a goal and a result. In the context of developing communicative abilities, text for the most part is a tool for integrating content and and language.

“If this is not the case we run the risk of students' writing – and thinking – reflecting their text-messaging practices and becoming little more than a series of truncated ideas. Many of today's students are quite capable of sophisticated thought, but as grab-bites become the norm in modern communication technologies, it is vital that the skills involved in producing thoughtful, developed compositions, reflective of higher order thinking, are fostered in our schools.” It is a view shared by Roslyn Arnold, honorary professor of education and social work at the University of Sydney, whose original PhD was on school children's writing development. (Noonan 2008)

A good reader has well developed language skills – writing as well as verbal. One can immediately pick out a child who is an avid reader, so S. Tretjakova (2005:16), Latvian national Library Childrens’ Literature Centre Director. “If you are a good reader, you don’t have any problems writing an essay or report in school. The written word creates characters, characters develop fantasy and imagination. Without imagination you cannot have a daily life or scientific discovery. Reading books influences a person’s character. It is not surprise a book is rated not only on text, but also visually – the richness of the language, the graphic format, printing rules, and artistic synthesis”. (Tretjakova 2005:16)

Karl’s Haberlandt (2006:1064) research of the cognitive process in reading affirms, that coherent text is based on the repetition of key concepts in a text. In order to comprehend the text, readers must spot the recurring ideas in the text and integrate them into a mental structure. Because most texts are too long to be processed in one piece, the reader creates a memory representation by processing the text's smaller units, its sentences, and its clauses. A variety of processes at several levels of structure, including letters, words, phrases, and sentences, contribute to comprehension. At the letter level, visual features must be decoded to identify letters. Word-level processes include the encoding of the word into an abstract unit and lexical access

by which the word's meaning is retrieved from a mental lexicon. Sentence-level processes include operations that handle both the segments of the sentence and the sentence as a whole. Text-level processes integrate the information from different sentences into the reader's model of the text. To achieve such integration, the reader must maintain the prior information from the current text in memory. All along, inferential processes occur that make use of the reader's general knowledge of the physical and social world.

Brain imaging investigation (Haberlandt 2006:1065) supports the hypothesis that reading builds on spoken language processing in that reading makes use of the same brain regions implicated in understanding spoken language. Eye fixation studies reveal that reading does not involve the smooth movement of the eyes across the page that one might assume. Rather, the eyes make short and rapid movements, known as the saccades, and then fixate on a text unit, which is typically a word. It is during the fixation that the reader is assumed to extract the meaning of the word. Thus, reading is much like a slide show where words are flashed for about a quarter of a second. The reader controls the exposure duration of each word, albeit unconsciously. The duration of eye fixations reflects the difficulty of a text segment. Unfamiliar words, challenging syntactic structures, and concepts introduced for the first time in a text require longer fixation durations.

Handwriting vs Keyboard Writing

The recent interest in handwriting research, guided by Herrick and Okada's (in Askov and Peck 1982:766) suggested directions, has been encouraging. The realization that handwriting is more than a motor task, since it also involves perception and discrimination, has made it an attractive subject for researchers. Cognitive abilities also come into play as children learn to judge their productions against models.

Given our increasingly impersonal world, concerned primarily with efficiency, Eunice N. Askov and Michael Peck wonder why any interest has been shown in such a form of personal expression. Precisely because handwriting is a form of personal expression, it needs to be preserved, researched, and taught effectively as well as efficiently. And, since it involves a form of personal expression, a child's success or failure in handwriting instruction influences how he or she feels about other school learning.

For a graphologist Claude Santoy (2001:12), notions of "good" or "bad" handwriting differ from those of an amateur. The latter will often take a regular, embellished and distinguished –looking handwriting for a positive style, although such handwriting, when it is the work of a forty-year old man, for example, may reveal childishness and intellectual deficiency to an experienced graphologist. A regular and monotonous handwriting often reveals mental regression or illness. On the other hand, an irregular and sometimes even jerky writing style may belong to an exceptionally intelligent

person. A genius's handwriting is usually extravagant; his "craziness" is released when he creates.

Handwriting and fine motor skills for Joanne M. Landy and Keith R. Burrridge (1999: 45–48) are absolutely essential skills which kids must develop to maximize potential at school and home. The USA experience based on the Joanne M. Landy's and Keith R. Burrridge's research relates children's' cognitive abilities with the development of their fine motor skills. As their brains learn to connect inner worlds to the external universe, they begin to recognize abstract ideas like awareness of others and perception. Visual-Motor Integration refers to the child's ability to accurately reproduce shapes. It is the process that links what the eye sees to what the hand produces. Without adequate development in this area, the child is going to have difficulty reproducing the complexities of letter formations and their spatial requirements.

Santiago Pellegrini (2006:1142) posits Visual-Motor Integration of the sensitive period as a foundational skill which will negatively affect many aspects of functioning if not achieved, from dressing to handwriting, shoe tying to typing, strength and endurance, putting items together to manipulating small objects.

The concept of a sensitive period refers to a period of time in development during which certain internal or external events have effects that the same events do not have at earlier or later developmental stages. Certain events may determine long-lasting important characteristics of individuals if they occur within a particular developmental period, even if they have no obvious immediate relevance. Furthermore, these effects might not be susceptible to change in later developmental stages, or, in other words, they may tend to be permanent. An understanding of the time periods during which the individual is particularly sensitive to certain life events is important to understand aspects of typical and atypical behavioral development, and to improve child care and intervention programs.

Some developmental theorists (Kavaliauskienė and Anusienė 2004:236–240, Ptičkina 2005:31–34, Deutch 2009:158) have argued that there are psychological processes that may occur only within precise temporal windows of opportunity, called critical periods. The hypothesis of critical periods was borrowed from embryological studies indicating that, within a critical period, organ tissues tend to differentiate according to adjacent cells. Once the critical period ends, organ tissues lose their plasticity and become unalterably differentiated. However, research has demonstrated that the limits of the time periods affecting psychobiological developmental phenomena are not as rigidly fixed as originally thought. The term *critical period* was therefore replaced by that of *sensitive period*. The term *sensitive period* is similar to that of *critical period*, but it refers to a time window with limits that are graded, rather than abrupt, relatively malleable, and probably depend on the characteristics of particular individuals and their experience.

Joanne M. Landy and Keith R. Burridge (1999:35–50) insist, because children are developing their fine motor skills, cursive writing allows them to gradually improve their eye-hand coordination versus straight lines that strain students. Writing should be taught before children learn how to print. Although many of us neglect our cursive writing skills, except to sign a document now and again, due to the advent of computer technology; however, cursive writing is both more efficient and more natural when mastered before print.

Cursive writing affords them the opportunity to naturally train these fine motor skills by taking advantage of a child's inability to fully control their fingers. This means cursive writing acts as a building block versus as a stressor. With a less strenuous learning experience, children can progress in their learning at a faster, more efficient rate.

As a consequence, their fine motor skills and cognitive abilities may be more likely to develop faster, thereby, giving children the tools they need to develop more sophisticated mental tools. At the same time, cursive writing exists to help them write with more precision at a faster rate. If a child learns to write at a faster rate, he or she may well become faster when it comes to thinking. Meanwhile, the ability to express ideas far more quickly may translate into an opportunity to explore more complex concepts. This forces their brains to work harder when it comes to coordination and cognitive abilities. Accordingly, the brain develops faster and stronger by the fact that ideas can be expressed more readily. While educators are only beginning to understand the impact of learning on our brain development, cursive writing can be quite beneficial. Not only does it help us learn, it allows to children to gradually improve their fine motor skills at a stronger pace while our cognitive abilities are always improved by greater learning. (Landy and Burridge 1999:133)

Conclusion

Barker's Dr Marks said: "The process of writing – whether it be by hand, or on a computer keyboard – is closely connected with the process of thinking. Research points to the fact that thoughts are generated, not merely recorded, through the process of writing. So my fear, in relation to the rise of abbreviated forms adopted by many when emailing, text messaging and instant messaging, is that the capacity for deep thinking, fostered through writing, will be eroded. But within the next year or so all of students will have to sit 15 to 20 hours of examinations for the Higher School Certificate, and the exams will be almost entirely handwritten. Unless they have a proven disability and cannot write on the day of the exam, the only acceptable exam paper is one handed up in an individual's handwriting". (Noonan 2008)

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RECONSTRUCTING SIMULATION: ACCESS TO HIGH-SCHOOL SCIENCE DISCOURSE THROUGH RESPONSE-FOCUSED PARTICIPATORY DIALOGUE¹

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Abstract

This paper examines high-school science discourse in a computer group-simulation context to see whether a reflective reconstruction of a simulation facilitates an efficient and participatory dialogic discourse of science that is more similar to a real scientific conversation. Discourse analysis was employed to see what dialogue format was characteristic in a simulation-driven context. The findings show that a content-related post-simulation talk in a technology-infused high-school science class mostly consisted of a response-focused multi-party dialogue (IRR). Technology simulations generated applications of the response-focused dialogue while fostering access to science discourse through increased student contributions.

Keywords: *discourse analysis, language and science education.*

Introduction

The idea of scientific inquiry refers to interactive classroom activities (e.g. computer simulations) that include observations, questions, experimental design, tests, conclusions, and communication of findings. This approach is designed on professional practices sharing an assumption that “the learning of science needs to be an active process of learning with students fully involved in the discovery of scientific meaning”. (Hanauer 2006: 201)

It has also been noted that language or, specifically, written or oral discourse plays an important role in the process of providing students with sustainable understanding of complex scientific concepts. (Kelly 2007; Lemke 1990; Michaels et al. 2008; Yore et al. 2006) Specifically, Lemke (1990) points out that “the one single change in science

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teaching that should do more than any other to improve students' ability to use the language of science is to give them more practice actually *using it*" (168; emphasis mine). As it is understood, discourse – that has both the propensity to either foster or inhibit dialogue – perhaps lies at the heart of the student language use while scientific phenomena are explored.

This paper reports on a small-scale study examining the use of language in an inquiry-based high-school science classroom where students investigated phenomena through networked computer simulations. These simulations partly were designed to increase student discourse and participation. During the sessions, they had to simulate an epidemic outbreak, an activity that – through technology-infused learning – attempted to mediate their access while the students were studying the phenomena of infection. They later briefly (but in a uniquely intensive way) reflected on specific instances of the simulation together with the teacher using a response-focused participatory dialogue. This type of dialogic interaction (as opposed to regular classroom interactions) showed a conversational pattern that resembled communication on a real-world scientific topic. The brief post-simulation reflection between the teacher and her students then constituted the focal interest and motivation behind the analysis reported below.

In sum, I look at the post-simulation discussion in detail to determine whether this type of talk that had a computer simulation as a background stimulus is rich in potential for science understanding. Specifically, I examine the dialogic organization of science discourse that play a role in forming both conversational make-up and follow-up of either evaluation-focused or response-focused formats.

Background

In the *Handbook of Research on Science Education*, Kelly (2007: 444) characterized research of written and spoken discourse in science education as representing the following theoretical traditions: social semiotics, sociolinguistics, ethnomethodology, cognitive science and psycholinguistics, rhetoric and writing, and critical discourse analysis. In short, the focus of the spoken discourse research looked at the science classroom in terms of the nature of teacher-directed, student-oriented, or small-group conversations. (Kelly 2007)

One of the central themes characterizing oral interactions in the science-classroom has been the triadic dialogue during which the teacher asks a question, a student (usually one) tries to answer it, and then the teacher gives some sort of evaluation or feedback (often with words 'good', 'excellent' or 'not quite'). Larson and Marsh (2005) characterize the triadic dialogue (IRE – initiation/response/evaluation or IRF – initiation/response/feedback where, according to Hellerman (2003: 13), feedback includes various sorts of responses) as the prevailing "discourse structure in classrooms". They (Larson & Marsh 2003: 13) provide a typical illustration (Example 1).

Example 1

Teacher: *What is the capital of New York?*

Student: *Albany.*

Teacher: *Good!*

Example 2 shows the evaluation-oriented IRE dialogue coming from a regular science classroom that I observed as a part of the study.

Example 2

Teacher: *Do you know what the original antibiotic was?*

Student: *Penicilin?*

Teacher: *Penicilin.*

As it is obvious, due to its structure and response constraints, the evaluation-focused triadic dialogue does not facilitate conversational or thematic progression beyond the line of one correct answer expected and confirmed by the teacher. This way, the triadic dialogue may prevent both immediate student access and further engagement to the development of the science story.

Hanauer (2006) has defined the triadic dialogue in the science classroom as *a backward-looking simulation of science*. Essentially, this means that students are asked to parrot scientific concepts in a textbook-constrained way without a ‘forward-looking’ (so to speak) hint of how those concepts might relate to the students themselves and the real world they live in. There is no element of self-discovery of science built in within the format of the triadic dialogue. Consequently, it provides only a narrow opportunity to recite what already is known and has been stated.

Lemke (1990: 106) also once noted that nowadays (i.e. in the 1980ies) teachers “tend to organize lessons primarily in terms of Triadic dialogue”. He claims that nothing prevents students from practicing the discourse of science more than the prevalence of (evaluation-focused) triadic dialogue, because it simply limits student opportunities of self-expression. Essentially, Lemke (1990) says that the triadic dialogue is a teacher-centered dialogue that tends to elicit brief answers and diminish student initiative to use the language of science. As possible alternatives, he suggests cross-discussion, group-work, framework for student questions, off-task student-student communication as well as two-way translation practice of formal and colloquial scientific conceptualizations.

In his longitudinal ethnographic study of science communication in high school and university classrooms, Lemke (1990) examined talk in science education by focusing on ways science concepts are communicated. After observing sixty science classes with twenty different teachers, he found that the classroom dialogue, through which science talk mostly is organized, predominantly consists of a three-part Question-Answer-Evaluation structure. “The science dialogue”, Lemke (1990: 13) argues, consists of two organizational components: activity structure and thematic development. This means that scientific understanding is built up from separate components

and – in the course of time – multiple connections among those components are made which results in the formation of conceptual knowledge.

Michaels et al. (2008) also emphasize the overuse of the evaluation-focused triadic IRE dialogue format in the science classrooms (so it is still around in the 21 century). They argue that while this mode of turn-taking sequence is useful for review (see examples above) and assessment, at the same time, it does not help “to support complex reasoning, to elicit claims with evidence, to get students to justify or debate a point, or to offer a novel interpretation”. (Michaels et al. 2008: 90) As possible alternatives to the triadic dialogue or the IRE recitation, they suggest various talk moves (e.g. re-voicing, restatements, re-reasoning, prompting, reasoning clarification requests, and wait time) which imply that “it takes effort, time, and patience to explicate one’s reasoning and that building arguments with evidence is challenging intellectual work”. (Michaels et al. 2008: 90) After such mode of communication is achieved, students would still need to embed their conversation in data and analysis while developing ideas collectively and cumulatively.

In light of the above literature discussion I propose the following research question:
Does post-simulation student-teacher discourse reflect an evaluation-focused triadic or an alternative dialogue organization model?

Method

Context and participants

The *Netlogo TI Navigator* is an extension of *Netlogo* environment which is a user-friendly computer modeling and programming platform for simulating natural and social phenomena in education²¹. Besides running model simulations (e.g. Wolf Sheep Predation), teachers and students can also create new models. *Netlogo TI Navigator*, is designed to mediate a group-based opportunity to interact with *Netlogo* models through connecting students’ TI graphing calculators with the teacher’s PC. In such an environment, individual avatars on the screen, guided by different individuals create a shared space in which behaviors of each individual avatar affects the whole.

In this exploratory study, the researchers introduced students to a simulation called Infection Outbreak and used one port computer that showed a display of students’ movements on screen. The movements on the screen were directed from hand-held Texas Instruments calculators connected to the teacher’s computer.

² *Netlogo* has a very instructive website (<http://ccl.northwestern.edu/netlogo/>) which tells students how they may use the software to run simulations with stand-alone models on their PCs in order to examine how certain phenomena may change in the course of time under preset conditions.

The research participants consisted of public high school students of science ($n = 15$) and a research Co-investigator (the teacher) participating in the summer school biology class in the US Southwest in July, 2007. In terms of ethnicity and reported languages the students included 10 Hispanics, 3 Blacks, and 2 Whites of whom 7 were Spanish/English bilinguals, 6 English monolinguals, 1 Navajo/English bilingual, and 1 classified as ELL. The classes were audio/video taped, recordings were transcribed, and field notes were taken during the sessions.

Data and setting

Data for this paper are drawn from a two-week pilot study that examined a technology-infused high-school science classroom using *Netlogo TI Navigator* interactive computer simulation technology to investigate and discuss bacteria and infection. Unique to the setting was the introduction and use of the technology which students employed for various simulations over the course of a lesson in which they were introduced to bacteria and viruses. They enacted several simulations, the first in which they could see who was infected and the second in which they could not see who was infected.

Following a discussion on their behaviors in these two simulations, students designed experiments in which they hypothesized rate of infection on the basis of population density and degree of infectiousness. The culminating activity of the lesson was outlining the results of the third simulation and explaining which of the parameters the various groups had proposed was simulated and what evidence they had for this as seen in the graph generated by the simulation.

Netlogo simulation modeling environment provides an opportunity to change simulation-affecting conditions and parameters such as time rate, number of participants etc. *Netlogo TI Navigator*, on the other hand, had an option – as in the instance of the Infection model – that showed who of the group participants were infected with a virus and who was not. After the game part of the simulations the teacher split students into groups and asked them to draw a timeline for the two simulations in terms of differing parameters (e.g. number of people and infection speed) that was followed by work with specially designed workbooks. Then, the teacher and students discussed the two treatment simulations in terms of the behavioral difference between them and, specifically, how the knowledge about who is infected affected the behavior of anyone else. This discussion was later used for a detailed analysis.

In particular the teacher and students' discussions centered on behavioral differences on the part of the students in the two simulations, as well as how the knowledge about who was infected affected their behavior. I specifically examined a selected eight-minute post-simulation interaction in which the teacher guided students to reflect on what happened and changed during and between the two outbreak simulations. I chose this segment out of approximately two-hour class time on that particular day. I did so because it seemed more interactive than any other part of the lesson which overall was

more instructive and less dialogic, i.e. either the teacher or students were talking at a time or general instructions were given.

Analysis

In the following section I describe the types of conversation sequence organization in the technology-mediated post-treatment conversation on infection and human behavior simulations during the virtual outbreak. I do so in order to determine the extent to which the discussion as a whole or segments of it were evaluation-focused (IRE or IRF) or response-focused (e.g. IRR – initiation/response/response).

A brief overview of the eight-minute simulation discussion shows that the teacher and students ranged from (1) straightforward teacher questions on the behavioral differences between the two simulations, (2) more elaborate teacher questions on what and how the simulations went on, and (3) the discussion shifted to a ‘real’ infection scenario.

The analyzed discussion segment contains 33 response-focused IRR sequences, 5 evaluation-focused IRE sequences, and 2 sequences that are difficult to identify either as IRR or IRE due to the teacher’s use of sentence starters like ‘ok’, ‘right’, or ‘now’. In this case, these words may both be interpreted as the evaluating sequence of IRE or simply a floor-taking strategy. Example 3 provides an illustration of a typical IRR dialogue:

Example 3

- 61: Teacher: [In case of an infection] *There is something else you ought to do, right?*
- 62: Student 1: *Well (xx) I'd go to the hospital first.*
- 63: Teacher: *You immediately go to see some emergency personnel somewhere, right? Because the longer the disease has time to go forward, the worse are the effects.*
- 64: Student 1: (xx; overlapping speech) *Yeah, every twenty minutes it doubles.*
- 65: Teacher: *It doubles very quickly, right?*
- 66: Student 1: *I'll get to the hospital in ten minutes.*

Here, the Teacher asked what students should do in case they got infected (Line 61). The Student 1 responded that he would go to the hospital (Line 62). The Teacher developed the story line and asked whether he would go to get some emergency staff, and comments that time is of critical importance in containing an infectious disease (Line 63). The Student agreed by saying that the disease had capacity to increase in strength two times every twenty minutes (Line 64) to which the Teacher affirmed the same thing by a counter-question (Line 65). The exchange ended with the Student 1 determined to get to the hospital in ten minutes (Line 66). What is particular about the response-focused IRR dialogue that, after the teacher opens conversation, all dialogue slots – depending on situation – can be filled both by either a student or a teacher. Therefore, the IRR format appears to be potentially more flexible, efficient and more

dialogic than the evaluation-focused IRE and, in a sense, generates a non-linear development of conversation. In other words, response can also serve as initiation and there can be more than two responses.

In sum, this discussion segment shows that the Teacher effectively used a slightly extended and restated content-related rhetorical counter-questioning instead of evaluation to move along the exchange dialogically in a response-oriented IRR sequence mode. In a sense, the Teacher both counter-responded and, by answering her own question, initiated the next turn at the same time.

Consequently, the research question can be answered: *Does post-simulation student-teacher discourse reflect an evaluation-focused triadic or an alternative dialogue organization model?*

Despite that the evaluation-focused triadic (IRE) dialogue does appear to be a part of content-related, reflective, post-simulation science talk, nevertheless, a multi-participant the teacher-student(s), response-focused dialogue (IRR) is clearly prevalent. Example 3 shows a very non-linear distribution of I and R sequences, but perhaps this is exactly what helped making the exchange very dialogic and participatory.

Conclusions, limitations, and future research

This small-scale exploratory study shows that a content-related, post-simulation talk on infection in a technology-infused high-school science class was predominantly formed of the response-focused IRR dialogue. Such a science-classroom discourse pattern is obviously different from the use of typical evaluation-focused IRE (or IRF) format used in the regular classroom. The response-focused IRR mode, in this case, helped to reconstruct outbreak simulations while forming a conversation on a real-world scientific topic as it might be done by people engaged in professional science. (Lemke 1990) The conversational pattern structured in this way provided a window for emulating scientific language as defined by Yore et al. (2006: 110) that is “a problem-solving tool that utilizes unique patterns of argumentation and form-function to explore relationships among variables and causality among natural elements and events”.

In sum, the response-focused IRR format allows for several responses in often-mixed participatory mode and then transforms the final response into initiation of a new turn through a rapid synthesis (or extension) of previous contributions. Exactly these discourse mechanisms of the IRR appear to serve as key stimuli for generating response chains that make it look like a normal conversation among professional scientists. In a way, this format stands close to what Mortimer and Scott (2003, 41) classify as IRFRF (an extension of IRF) where “the elaborative feedback (F) from the teacher is followed by a further response (R) from the student and so on”. This extended format, they argue, facilitates dialogic interaction.

This study has several limitations. First, only one post-simulation conversation event was analyzed from this small-scale pilot study. Second, only one science topic was discussed. Finally, although relatively sufficient in illustrating the response-focused dialogue in a technology-infused high-school classroom, this investigation cannot make direct comparisons with the typical use of the evaluation-focused (triadic) dialogue in reviewing science concepts because they were not prevalent. The study mainly dealt with the use of the response-focused dialogue (which seems to be more facilitative to inquiry) in a content-related, simulation-driven context. The latter, however, may serve as a viable alternative to the teacher-and-evaluation-focused (triadic) IRE or IRF review formats that often inhibit student contribution and an active use of science language. This, consequently, could have a potential to limit their personalized understanding of science as a real activity (i.e. that science is, in fact, done, not only verbally recycled in a textbook-driven discourse mode).

In conclusion, future research could utilize and examine other participation-mediating post-simulation reflections with diverse or partly related science topics in a longer term, with more data describing stable patterns of emerging scientific discourse in education. Such investigations could be analyzed in terms of how the teacher and students organize their discourse while utilizing the response-focused IRR dialogue to bring about the salience of content-related thematic connections. Such connections may effectively foreshadow and meaningfully integrate the science topics to be studied. Also, more analysis on response-triggering restatements that extend and counter-question an initial response is necessary. At the same time, researchers should also appropriately test whether besides providing a better access (through conversational participation), a technology-mediated thematic connection making through response-focused dialogue has real effects on students' ability to understand and employ science concepts.

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Appendix 1

Transcription conventions

| | |
|---------|----------------------------------|
| (...) | elapsed time, change of sentence |
| (xx) | unintelligible segment |
| (pause) | pause |
| ↑ | rising intonation |
| ↓ | falling intonation |

QUALITY ASPECTS OF BAUDELAIRE'S POETRY IN ENGLISH TRANSLATIONS

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Abstract

The paper deals with translators' considerations about quality aspects in Baudelaire's poems translated into English. Source texts have been regarded as a *culturally* defining, while *literary* heritage appreciated and studied worldwide either in French or through translations (English). Quality is discussed from theoretical viewpoints and translators' accounts that point to a clash of ideas about *expectations* and ideas on *acceptability*. The paper analyses quality in poetry translation and provides a comparative study of the published source texts by James McGowan, Walter Martin, Carol Clark, Francis Scarfe, and Clive Scott. The results show that quality discussions are an ongoing debate and a source of suggestions for would-be translators.

Keywords: *quality; subjective, response-oriented, text-based, functional-pragmatic approaches.*

Introduction

Firstly, in the context of the paper, the concept of quality designates the degree of excellence, or a general excellence of standard (Pearsall, 2001:1515) perceived as a necessary benchmark against which the translated text can be evaluated and appreciated. The aim of the paper is to illustrate how diverging and converging ideas about an acceptable target text find their applications in translation theory and the renditions of Baudelaire's poetry in English by such recognized translators as James McGowan, Walter Martin, Carol Clark, Francis Scarfe, and Clive Scott.

Secondly, the topicality of the paper lies in the fact that quality aspects of literary texts in translations have been a continuing debate both by theorists and practicing translators.

Thirdly, Baudelaire's poetry has undergone several translations that affirm his poetry to be of a major interest not only to literary theorists, culturologists, semioticians, linguists, fellow poets and poets – followers, but also to translators worldwide. Wallace Fowlie states that an unremitting scholarly, cultural and intellectual interest in the poet's literary heritage "is today as strong a term as romantic or classical, as Freudian or existentialist". (Fowlie 1982: lxxxii)

The objectives of the paper are: 1) to discuss quality aspects of poetry translation; 2) to bind those considerations with James McGowan's, Walter Martin's, Carol Clark's, Francis Scarfe's, and Clive Scott's assumptions on acceptable target texts; 3) to provide conclusions about the difference in excellence of various target texts that contribute to bridging French and English literary cultures through translations. The methods to achieve the aim of the paper are: 1) descriptive studies of theoretical sources, 2) contrastive analysis of target texts and translators' considerations, and 3) the hermeneutic valorization of the diverse approaches to translating Baudelaire's poetry in English.

Translation Theory on Quality

With regard to poetry translation, quality aspects have been discussed in terms of various approaches as to what constitutes an acceptable poetic target text. A concise outline of different viewpoints has been provided by Juliane House. (House 1998: 197–200) She identifies four strands in the discussions on qualitative target texts: 1) the subjective, 2) response-oriented, 3) text-based, and 4) functional-pragmatic approaches that lately include also the cognitive aspect. (House 1998: 200)

The subjective approach shared by such scholars as Stratton Buck, Robert A. Welch, and partly by Katherina Reiss and John H. Taylor, regard qualitative translation as a close rendition of the source text. Subjectivity manifests itself as a full identification with the source text resulting in accuracy and fidelity. (Reiss 2004: 175) Intelligibility, readability, and accuracy are praised. (Taylor 1951: 39) Peter Newmark considers expressive texts to be authoritative, and therefore they are to be translated closely (Newmark 1988: 16) so that the target text matches the original. Both Robert A. Welch and Stratton Buck defend “fidelity to the sense and meaning of the poem” (Buck 1964: 171) because, according to Robert A. Welch, “the translation is a re-affirmation of the original”. (Welch 1972: 326) What all the subjectivists, as Basil Hatim calls them literalists (Hatim, Mason 1997: 14), have in common is the reliance on the form and linguistic features of the source text. For that reason, Juliane House also labels such quality considerations as an anecdotal approach to poetry translation. It is possible that the subjectivist approach has heavily relied on the quality ideas on translation from the 1950s – 60s due to a more widespread availability of Roman Jakobson's in-depth structural analyses of Baudelaire's poetry and its translation aspects. (Jakobson 1987: 180–197; Jakobson 1981: 464–481) Roman Jakobson's influence on translating Baudelaire has been described by Basil Hatim, “In recent times, Roman Jakobson is one of those who from a linguistic perspective adopt a pessimistic view”. (Hatim, Mason 1997: 12, *also* Shapiro 1997: 81) However, by coupling phonology with semantics, Roman Jakobson rather seems to defend intersemiotic transposition (Shapiro 1997: 82); namely, the analysis of, a search for, and the substitution of literary signs from the source text with those of the target texts.

They have been termed *epistemes* in Leonard Orr's paper referring to Michel Foucault (Orr, 1986: 813). Subjectivist-structuralists' views have been opposed by "libertarians" claiming that poetry permits maximum liberty of translation. (Lednicki 1952: 308; Zdanys 1982: 3) However, among the benefits of subjectivist-structuralists' approaches several ones can be mentioned: 1) the enrichment of vocabulary (particularly in Walter Martin's renditions of Baudelaire's poems), the accuracy and self-disciplining for concentrated attention (as in Carol Clark's interlinear translations).

Proponents of the response-oriented approach defend the dynamic equivalence. (House 1998: 197) Because poetry is an expressive and aesthetic verbal art, a similar poetic response to target texts is sought by translators following this approach. As to poetry, there are several features that trigger responses, mostly sonoric: rhyming, versification, musicality, accentuality, and also themes and imagery. Such an approach has been implemented by Clive Scott whose translations of Baudelaire's poetry incorporate paralinguistic markers for stresses, tones and caesuras. This approach is also referred to as *reductionist* because the translation depends on select aspects of the source text (House 1998: 198). Thus response-oriented poetic translation may not be called an all-encompassing search for quality; thereto, it is not altogether clear whose responses have been privileged in a response-oriented poetry translation. Baudelaire's poetry is musical; however, musicality and sonority are not the only aspects that mark the poetry as a literary state of art *par excellence*. (Lednicki 1952: 308) It may be hypothesized that Baudelaire himself as a translator (of Edgar Allan Poe) had considered the sonoric aspects in the translation of poetry as secondary of importance. He stated his attitude in a paradox, "[...] rhythm and rhyme answer man's immortal need for monotony and symmetry, as opposed to vanity and danger of inspiration". (Fowlie 1982: lxxxiv) Captured between fidelity and proper response, the poet once abandoned translating Poe's poems altogether, although his translations still remain classical texts in French. (Martin 2006: 440; Scarfe 2006: 46)

In a text-based approach, the source text is of secondary importance. (House 1998: 198) The translator has a *skopos* (i.e., aim) in mind and, according to that, manipulates the text as she/he considers it appropriate. There are several factors that may distinguish target from source text: semantic, syntactic, stylistic and pragmatic differences. Such an approach has been followed, for example, by Walter Martin and Carol Clark. This practice is in line with at least three types of manipulation as described by Aiga Dukāte in her doctoral dissertation, namely, conscious manipulation resulting from social factors; intersection as a result of foregrounding a particular aspect of the source text in the translated poem; intercultural manipulation where such strategies as extra textual glossing and autonomous creation can be observed. (Dukāte 2007: 61) Thus the quality to a large extent is determined by the match between *skopos* and translators' intentions. The *skopos* and intentions may be directed towards either a specific recipient or an intentionally modified source text. Partly this aspect is supported by Katharina Reiss who states that "if the artistic organization might be

harmful by the retention of the same content elements, then the contents may be changed” (Reiss 2004: 178). Therefore Walter Martin’s translations can be deemed as deliberately creative transformations, whereas Carol Clark’s translations intended solely for study purposes are interlinear translations.

Quality aspects relating to the functional-pragmatic approach emphasize the equivalence of a function. The poetico-aesthetic function in a target text echoes similar pragmatic means of the source text (House 1998: 199), and it is the poetic function that determines the whole target text. (Reiss 2004: 172) The poetic function encompasses the strategies of textualization, the mood of the poem and the literary presence in a target text. Katharina Reiss includes the conceptual content, linguistic form and communicative function into the functional-pragmatic approach. (Nord 2001: 9) In the translated Baudelaire’s poems, all translators claim to have reached a certain degree of equivalent function. They all are in agreement that they have managed to elicit the literary code, namely, the French cultural code for the target readership in English. Nevertheless, a target text produced in English foregrounds the bicultural conception because the peculiar French aesthetic and poetic effects have been made known to English readers through the means of the English language, and in it lies the dual nature of literary translation: the binding of two cultures. (Pope 1999: 175; Gideon 1995: 54)

Conjoining and Diverging Translators’ Quality Considerations

Of the five major translators’ literary endeavours, it is possible to ascertain that quality in target texts is not a uniformly agreed benchmark for producing literary texts from French into English. However, translators provide the preconditions in order to assure the quality of target texts: pre-translation analysis (both linguistic and extra linguistic), pragmatic and cultural aspects. The following table summarises quality components of Baudelaire’s poems in English.

Table 1

Quality Components

| Translators: | Quality Markers: | Quality Limitations: |
|---|---|--|
| James McGowan (McGowan, 2008: liv-lvi) | Cultural transfer Creative transposition Replication of poetic effects Content Target audience Translator-centered | Poetic form Sonority Versification |
| Walter Martin (Martin, 2006: 440–442) | Archaizing Translator-cantered Free transposition Translator-mediator Translating as compromising | Temporal gap between source and target texts |
| Carol Clark (Clark, 1995: vii–xxxii) | Extra-textual glossing Target audience Grammatical equivalence Lexical equivalence Layout | Sonority Rhyming Poetic function |
| Francis Scarfe (Scarfe, 2006: 9–46) | Content-oriented Target audience Imagery Interlingual study aid | Versification Rhyming Creative translation Extra textual glossing |
| Clive Scott (Scott, 2000: 1–28) | Process-oriented The match between forms Sonority Textual unity Foreignization | Lacunae Domestication Overemphasis on micro textual units |

Table 1 indicates that there is no uniform approach to translating Baudelaire in English. James McGowan, Carol Clark and Francis Scarfe presuppose the needs of the reader for cultural familiarization, didactic texts, and the content; whereas Walter Martin offers the reader to perceive a temporal distance with a translator acting as a mediator between past and present. That is why the vocabulary at the expense of Baudelaire's alexandrine verses is purposefully Latin in origin: sacrilegious (Martin, 2006: 11), transparent (*ibid*: 17), pullulate (*ibid*: 145), maledicta (*ibid*: 27), potentates, coruscate, scintillate (*ibid*: 175), stratagem (*ibid*: 59), lacerates (*ibid*: 157) etc. Clive Scott is in favour of foreignization, i.e., persisting on the cultural gap between source and target texts. He achieves it through a specific strategy – marking poems with

prosodic information so that a poem resembles a text with a music type on top of and between every line:

- 1) While 'lush/ly the 'per>fume// of!'green/ tamarind –'trees,
Which swirls 'round./ in the 'air// 'dila./ting^my 'nostrils (Scott 2000: 28)

as compared with James McGowan's translation:

- 2) While verdant tamarind's enchanting scent,
Filling my nostrils, swirling to the bramin. (McGowan 2008: 49)

Translators' varying strategies involved in rendering Baudelaire in English fit into all four Juliane House's quality approaches to translation. So, James McGowan follows the response-oriented approach, Walter Martin and Carol Clark – the subjective-structural approach, Francis Scarfe – the text-based approach, and Clive Scott – the functional pragmatic approach. In their diverse renditions of the same source texts, translators have reached a certain degree of equivalence, albeit sometimes at the expense of form or metre; sometimes at the expense of a concrete lexical expression. Poetic equivalence permits to express a poetic source text in accordance with the author's intentions and the reader's reception in order to provide what Jonas Zdanys called *effect of affect* that is part of the target texts' poetic character. (Zdanys 1982: 3) The result in English translations may be an interlinear translation as in Carol Clark's and Francis Scarfe's cases, or foreignization of the source text as in Clive Scott's case. Such strategies affect the poem not only lexically but also the form of a poem organization (verse vs. free verse). The following examples are from the poem *Je T'Adore À L'Égal de la Voûte Nocturne – I love you as I love the Night Itself*:

- 1) I press the attack and climb to the assault like a choir of worms, and I cherish,
O implacable cruel creature, even the frigidness that makes you ever more beautiful in my eyes (Scarfe 2006: 85)

compared to

- 2) I rise to the attack, mount an assault
Like worms that climb a corpse within a vault,
And prize your cold disdain – you cruel beast! –
That makes me yet more avid at the feast. (Martin 2006: 65)

In the following examples, original source text words *Satan – Dieu, Ange – Sirène* have been either faithfully rendered as in Carol Clark's translation, or in a communicative, target-oriented strategy as in Francis Scarfe's and Walter Martin's target texts:

- 1) Whether you come from Heaven or Hell, O Beauty, enormous, terrifying and ingenuous monster, what difference does it make? (Scarfe 2006: 81);
- 2) Scent, sound or sight, beneficent, malign –
Who cares if you're a blessing or a curse... (Martin 2006: 58);
- 3) From Satan or from God, what does it matter?
Angel or Siren, what matter, if – velvet-eyed fairy. (Clark 1997: 18)

The five translators also account for their strategies of translating. Thus Walter Martin's principle has been to keep aware of *traduttore, traditore* ('Translator, you're a traitor!'), i.e., either the translator sacrifices the form or the content; ideally, a translator should be an arbitrator. (Martin 2006: 441) However, Clive Scott, analyzing Walter Martin's translations, is rather critical, "In the face of so many approximations the English version serves as a commentary on Baudelaire's modernity. The liberties Walter Martin has taken have no explanation. Every translation is a linguistic coup-d'état". (Scott 2000: 179) Francis Scarfe has translated Baudelaire's poems into prose and justifies his approach by explaining, "I offer no apology for translating the poems into prose, as this serves a useful purpose for many overseas readers". (Scarfe 2006: 46) Francis Scarfe's translation is imitative without interpretative elaborations. He calls on Baudelaire's own experience to translate Edgar Allan Poe's verse into prose. Clive Scott defends *foreignization*; namely, the translation is the study of cultural and linguistic aspects unknown to the reader in English. (Scott 2000: 14) With differing quality considerations every translator has co-authored Baudelaire after more than a hundred years since the first source text. Varying quality standards concerning the translation of classical poets such as Charles Baudelaire lead to an assumption that all translations are either approximations of the source text or an attempt to engulf the original; that is why the translation of classical authors remains a topical and on-going activity among translators with the reliance on and the help of theoretical and source studies. Every new translation is welcome because they disseminate those literary and cultural values that have been left unintroduced to the target readership by fellow translators-practitioners.

Conclusions

Four aspects of quality can be related to the translation of poetry. In the subjective approach, the translator focuses on the semantic and grammatical match between texts. Response-oriented translations aim at eliciting equivalent aesthetic responses. A text-based approach sidesteps the source-text and emphasizes the importance of the *skopos* often at the expense of source text elements. The functional-pragmatic approach serves as a means to bridge the two cultures through maintaining the poetico-aesthetic function and the literary code of the source culture.

The five translators' quality considerations involve both limiting and delimiting factors in rendering Baudelaire into English. James McGowan has followed the response-oriented approach; Walter Martin and Carol Clark – the subjectivist approach; Francis Scarfe has pursued the text-based approach; whereas Clive Scott has followed the response-oriented approach. However, certain aspects of quality approaches are not unique with regard to one particular translator as shown by quality markers proposed by the translators themselves.

Target texts and the translators' quality limitations do not necessarily reflect unaccomplished source texts but rather the aspects of untranslatability such as cultural lacunae, the French poetic form, versification patterns, and others. For that reason, target texts are diverse, and there is a growing need to consider the study of transfer mechanisms in poetry translation together with cognitive approaches to translation.

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NOTES ON THE LANGUAGE OF TRANSLATION OF CRIME NOVEL "BLOW FLY" BY P. CORNWELL TRANSLATED FROM ENGLISH BY L. BLUMBERGA

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Abstract

This paper focuses on the analysis of the target language (the Latvian language) in the translation of a detective novel. Reasons have been searched for why some fragments of the translated text are difficult to understand for target readers. This paper includes the analysis of parts of speech in simple sentences, structure of complex sentences, and structure of paragraphs of the translated text and their context, as well as examines the comprehensibility of comparisons and lexical choices used by the translator.

Keywords: *target language, Latvian language, text comprehensibility, syntax, lexicon.*

Translated fiction is becoming more accessible in Latvia. What is the quality of these translations like? Do the translations testify to the translators' proficiency, or do they create disappointment, perplexity and an impression that the work has not been done as it should be?

The aim of this paper is to find out the following:

- Why some places in the translation have to be reread in order to be understood?
- What lexical peculiarities can be found in the translation?

To attain the objective, the language of the crime novel was analysed using the comparative method, and the validity of conclusions is confirmed in linguistic sources.

The plot of this crime novel is set in the 21st century USA, mainly in Virginia, Texas and Louisiana. Forensic pathologist Dr. Key Scarpetta and her team try to find serial killers from the rich Chandonne family of French origin. The novel describes specific procedures of forensic pathology investigation, crime scene investigation, manhunt, and internal relations between the crime and the killers, their victims and investigators. The killers reside in the Mississippi Basin glades, where there is an abundance of alligators and snakes, tree frogs and opossums, mosquitoes and flies. The Quasimodo-like killer Jean-Baptiste Chandonne, sitting on death row of a Texas prison, uses native French expressions in his speech.

In order to describe the American cultural environment, flora and fauna, behaviour, and thinking of different social groups, the translator has to be competent in various

spheres. Important cultural historic information is explained in footnotes, e.g., what are *kajunas*, who is Huey Long, or how the English unit system works. Unfortunately there are no translations of French expressions and sentences.

In some places it is difficult to grasp the meaning of the text because of unusual **word order** in Latvian. It is assumed that the word order in the Latvian language is free, but this is not always the case. Direct word order is observed in neutral sentences, where there is a subject, a predicate, and the object as a rule follows the verb (Freimane 1993:259), e.g., *Viesturs lasa grāmatu*.

In colloquial speech there can be observed an indirect word order, where the predicate is followed by the subject, and secondary part's placement in the sentence differs from the usual order.

In the neutral text of the crime novel there is a sentence like: *Marino un Lūsijai Skarpeta uzticas vairāk nekā jebkuram citam savā mūžā* (p. 56). A **simple extended sentence** begins with an object; it is expressed by an indeclinable proper noun, *Marino*, and the declinable proper noun *Lūsijai* in the dative case, followed by the subject in the subjective case – *Skarpeta*. It is unusual in Latvian to begin a sentence with the object followed by the subject. The recommended word order in this sentence would be as follows: *Skarpeta uzticas Marino un Lūsijai vairāk nekā jebkuram citam savā mūžā*.

Some **compound sentences** are incomprehensible as well, e.g., *Lūsija nekad nepabeidz to, ko reti kad sāk* (p. 229). The idea becomes clear only when the contents of the subordinate clause are moved to the main clause – *Lūsija reti kad sāk to, ko nevar pabeigt*.

Sometimes the translator has not chosen the right **conjunction for the compound sentence**. Example: *Viņš [suns] vēl nav gadu vecs, taču balts ar lielu, brūnu plankumu muguras vidū* (p. 94). The conjunction *taču* has a contradistinctive meaning, but here the juxtaposition of the two notions is not logical; one year old dog can be white with a spot on the back. *Taču* is redundant in this sentence. The commendable variant would read as follows: *Viņš [suns] vēl nav gadu vecs, ir balts ar lielu, brūnu plankumu muguras vidū*.

Text units are connected according to their meaning. If a text unit lacks a full grammatical centre, it is understood by context. Perceptibility is broken if there is no grammatical centre for a contextually bound text unit. For example, in a paragraph like:

Kādudien Beva no viņa [tēva] aizgāja un vairs neatgriezās, gluži tāpat kā bija darījusi viņas māte, kad Bevai bija trīs gadi. Aizgāja, atstādama viņu ar tēvu un viņa vajadzībām (p. 82).

In the last part of the paragraph there is an incomplete grammatical centre, there is no subject and, therefore, it becomes incomprehensible which character is meant by the phrase *Aizgāja, atstādama viņu ar tēvu un viņa vajadzībām*. At first, it seems that it is Bev, because she is mentioned in the preceding subordinate clause as well as in the beginning of the paragraph. However, when rereading the paragraph, the comments according to their content are linked with Bev's mother – *atstādama viņu ar tēvu*. It

would be recommended to use a full grammatical centre in the last part of the paragraph in order to help the reader to understand the text: *Kādudien Beva no viņa [tēva] aizgāja un vairs neatgriezās, gluži tāpat kā bija darījusi viņas māte, kad Bevai bija trīs gadi. **Māte** aizgāja, atstādama viņu ar tēvu un viņa vajadzībām.*

There are some very incomprehensible paragraphs in the text that become clear only after studying context. For example:

*Ja misijā nepieciešams nopietnāks ierocis, **pistole un papildu munīcijas aptveres** tiek ieliktas bagāžā, ko pazīno it kā par pazudušu, pavisā sasiens ar aviokompānijas lenti un viena no Lūsijas partnerēm, kas ģērbusies piemēroti šai lomai, pamet to pie viesnīcas reģistratūras (p.89).*

The information in the paragraph is incomplete, even after rereading it does not become clear, how the gun and extra ammunition pass into hands of the user who has illegally arrived in a foreign country by plane and by a hired car. Everyone knows that guns are not allowed in planes, and they cannot be taken across borders. Possibly the necessary gun is wrapped up in the country, Lucy has arrived to, and tied with an airline band for deception. Lucy's partner leaves it in the hotel reception as if it were a lost airmail parcel, addressed to Lucy, who lives there under a false name. Maybe this is a wrong interpretation of the paragraph, but then it should be changed by the translator.

It is hard to understand the translated text if the translation lacks some information, context, or there are incomprehensible words. For example, among the students of forensic medicine there is a “..Čikāgas detektīvs, ko kursabiedri uz **priekšdelma ietetovētā enkura dēļ** iesaukuši par Papaju” (p. 11). Why should an anchor tattoo be associated with Popeye? Who is Popeye? When searching the web resources, one can find the information that it is a popular cartoon and games character “Popeye the Sailor”. Also in the Latvian internet communities many users have taken a nickname – *papajs*. But what is *priekšdelms*? In Latvian, the part of the arm from shoulder to elbow is called *augšdelms*, but the part from elbow to the palm – *apakšdelms*. Is it the upper side of the palm then? No. *Priekšdelms* is a hybrid, created by the translator, because in English *apakšdelms* is forearm, so the first part of the compound is transferred to the Latvian name *priekšdelms* instead of *apakšdelms*.

When changing this sentence in Latvian, the word order should be changed as well. The sentence could read as follows: “.. Čikāgas detektīvs, ko kursabiedri iesaukuši par Papaju enkura dēļ, kas ietetovēts uz viņa apakšdelma.” Comments about “Popeye the Sailor” could be inserted in footnotes.

Simile is a stylistic device used for comparing one thing with another based on their similarity. In this translation, there are some similes where the compared feature is hardly perceptible because of the concise presentment. Example:

Tomēr Marino neiebilstu, ka viņam būtu tāds vēders, kas izskatās kā moguls uz slēpēm; viņš daudz ko dotu, lai mati atgrieztos uz galvas.. (p.130).

The simile *vēders, kas izskatās kā moguls uz slēpēm* cannot be understood immediately.

The dictionary of foreign words says *moguls* [*ang. Mogul < vācu izl. Mungel 'small mound of snow'*] is a type of freestyle skiing – run down a slope with small bumps of snow. (Sv.v, 2005: 365, 366) Thus, mogul means specific bumps for downhill skiing. The character Marino is looking at men's photographs in a sports magazine, and we can imagine that he sees well-trained men whose abs look like bumps in a mogul slope, and Marino would want to look like that himself. In this case the translation is deficient and could sound as follows: *..vēders, kas izskatās kā mogultrase*, and not *kā moguls uz slēpēm*.

There is one unusual comparison which, because of the abrupt translation, makes you ponder a bit in order to perceive the compared characteristics: *.. viņa kļuva par klejotāju, kas pārmetās no vienas viesnīcas uz citu gluži kā akmens pār ūdeni.* (101.).

Gluži kā akmens pār ūdeni – we know from childhood, if we throw a small stone (not big and heavy) slantwise on the water surface, it bounces back up and hops a little distance further forward. The translator must have meant the physical process. Thus, the character wanders from one hotel to another, frequently changing them, and this process is similar to the small stone's fleeting contact with the water surface. To ease the understanding it could be necessary to give a broader description, e.g., *viņa kļuva par klejotāju, kas pārmetās no vienas viesnīcas uz citu gluži kā slīpi mests akmentiņš lēkā pār ūdens virsmu, īsu brīdi tai pieskardamies.*

An original and successful simile, probably created by the translator, is *kā nikns kukurznis*, in the sentence: *Aizmugures sēdekļi kā nikns kukurznis sēž Marino* (p. 310). The reader stops here. Word *kukurznis* means 'solid, hardened soil clump, usually on a ploughed field or an uneven road'. Here the soil clump is personified with human characteristics – *nikns kukurznis*, even the sound of the word *kukurznis* could be associated with something sharp and prickly. Something like that is possible in the art of words. Poet A. Vējāns has also personified *kukurznis*, portraying it as grumpy: *.. Un ik sējumā kukurznis tūzīgs Lai no dzeguzes gaviļēm drūp.* (LLVV 1980, vol. 4, p. 467. *kukurznis*)

The comprehensibility of the text is disrupted by clumsy constructions of negation, which do not correspond to the norms of the Latvian language. For example, "*Nevaru piedalīties tādā procesā, kam vairs neticu,*" *Skarpeta atbildēja, sniegdamās pēc svaigi malta muskatrieksta. It īpaši, ja esmu ar to nesaskaņā,* – *tā ir ļaunāk, nekā zaudēt tam ticību*" (p. 91). Negation is usually expressed by a verb with the prefix *ne-*, as it is here, in the first part of the direct speech, – *nevaru, neticu*, but in the subordinate clause it is done wrongly – *esmu ar to nesaskaņā*, in the complex predicate only the helping verb should be negated – *neesmu*, thus – *neesmu ar to saskaņā*. (Lepika, 1962:205)

The sentence, *Nekas cits neatrodas nevietā* (p. 147) is incomprehensible. The context shows that this is a room left in good order after its occupant moved out, nothing is displaced, everything is as it was, and where it should be. Probably the thought could be expressed as follows: *nekas nav sajaukts, viss atrodas savā vietā.*

In some places in the translation, prepositions are not used where they should be in Latvian. Examples:

“Es iepazīnos ar viņu tikai pirms pāris mēnešiem, atsaukdamies sludinājumam par apakšri,” Marino gaužas (p. 148). Viņa nav atsaukusies durvju zvanam, tāpēc viņš gājis iekšā pats un viņu atradis (p. 284). “Vai šajā pasaulē vairs neviens neatbild telefona zvaniem?” Skarpeta uzreiz jautāja (p. 216). Lūdzu, atbildi zvanam, viņa domās lūdzās (p. 251).

The words *atsaukties* and *atbildēt* should be used in the dative case **without** prepositions only in cases when they relate to a living being, e.g., *atsaukties, atbildēt* (kam?) – *tēvam*, it is not possible to answer inanimate things, in such cases the preposition *uz* should be used: *atsaukties uz sludinājumu, nav atsaukusies uz durvju zvanu, neatbild uz telefona zvaniem, atbildi uz zvanu*. (Celmiņa, 1973) Prepositions are omitted also in some other cases, e.g., *Lūsija uzmin akseleratora [automašīnas] pedālim..*” (p. 90), better: *uzmin* (uz kā?) – *uz pedāļa*.

Džejs mierīgi sēdēja laivā un, viegli pieķerdams ar plaukstu beisbola cepurei, sveicināja plēsoni (p. 35), better: viegli pieķerdams (pie kā?) **pie** beisbola cepures (meaning of place). (D. Nītiņa, 1980)

In some places in the text we find calques from Russian that do not correspond to the literary language norms, e.g., *mēs ar tevi*:

Mēs ar tevi pret varu izturamies dažādi (p. 221), better: *mēs abas* or *tu un es* (Freimane, 1993:245); *Neviens netika ņēmis manu DNS, iekams mēs ar tevi* nozudām (p. 294), better: *mēs abi*. There are calques pie sevis, aiz sevis in sentences: *..viņa atteikšanās atgriezties pie sevis, saviem draugiem un tiem, kas viņu mīl, ir vēl jo bezjēdzīgāka* (p. 150). Judging by the context it would be better to use: *atgriezties mājās*.

Bentons ir izvācies, neatstādams aiz sevis neko, izņemot ēdienu bufetē.. (p. 147); *aiz sevis* is redundant, better: *Bentons ir izvācies, neatstādams neko* (or *neatstādams neko personisku, izņemot ēdienu bufetē..* *Viņš atstāj aiz sevis* manāmas dzirksteļu pēdas (p. 153), better: *viņš atstāj manāmas dzirksteļu pēdas* etc.

The translation uses mostly generally-used or neutral lexis, there are few low-style or colloquial elements, even in situations where debased characters talk to each other.

Sometimes the calm flow of language is interrupted by some newer anglicisms, like, *pikniks*, although it has already become a normal part of modern language. For example, *Bentons pieiet pie piknika galda un apsēžas uz tā..* (p. 52); *Marino iekārtojas viņam blakus uz piknika galda..* (p. 53).

Fast food tradition is depicted by using the word *beigelis*: “*Te ir radziņi un diezgan neēdama paskata beigeli*” (p. 23). We cannot find out anything about the specifics of this food from the context. However, there is some more information further in the text: “*Pirkt kafiju uz ielas [kioskā] ir vecs ieradums. .. Viņa dodas prom ar savu kafiju, parasto, ogļhidrātiem bagāto lenča beigeli ar magonu sēklinām, divām paciņām*

Filadelfijas krējuma siera baltā papīra maisiņā, salveti un plastmasas nazi" (p. 182). It can be understood that it refers to a kind of bread, but there is no additional information.

A modern apartment house is characterised by the word *penthaus* – Ir pagājuši vismaz trīs mēneši, kopš Lūsija ciemojās Bergeres *penthausā* (p. 201). There are no explanations either.

It should be noted as a positive feature that the translator uses the word – *maksimumstunda* for rush hour, and not *pikstunda* as it could be expected: "...Jūs noteikti zināt, kas tur notiek". "Nevaru nezināt. Par to lasāms visās jaunākajā ziņās," Skarpeta atturīgi atbild cauri maksimumstundas troksnim (p. 34).

In some places in neutral text, the translator has used words with slang undertones, characteristic for colloquial language, here they do not serve a stylistic purpose and are incongruous with the text, e.g., *paskats* – in the aforementioned conversation about bagels – *neēdama paskata beigēli* (better: *izskata*) and in neutral text "...atveras biroja ārdurvis un ienāk garš, glīta paskata vīrietis jūrnieka biksēs un tumšzilā īpašo lietu izmeklētāja žaketē" (pp. 273–274). The last example would sound better as *glīta izskata vīrietis*, and not *glīta paskata vīrietis*.

The translator uses words *rītasvārki* and *halāts* as synonyms, and they depict clothing of elder women, one of which is very rich and lives in France, but the other is a well-off American. Examples: *Viņa bija ievīstījies melnos zīda rītasvārkos*. (p. 48). *Soļojot ap viņas kājām plan[d] ziedu rakstā apdrukāts halāts* (p. 224). Can the word *halāts* fit in an American lady's description? Translator Jury Abizov has said that words carry "fingerprints" of the epoch. (Abizovs 1984: 65) The word *halāts* came into Latvian during the Soviet era under the influence of the Russian language, but in Russian it comes from the languages of Central Asia. The word *halāts* has its "fingerprints"; it could be appropriate for the characterisation of Soviet life, but not in this case.

There are different colour names in the translation: *bāli zils*, *krēmkrāsa*, *šokolādes krāsa*, *haki krāsa* etc. The reader stops at – *firziķu krāsa*. The word is familiar, though used rarely, because normally this fruit is called *persiks*. Now it becomes clear, *firziķu krāsa* is yellowish red. But what does *fuksīnkrāsa* look like? The word is unfamiliar, it troubles the reader's perception. The answer can be found in the Internet – *fuksīns* is a synthetic purple fabric dye, that was used in the 19th century, later a more enduring colour was obtained by other means, but the name stayed, thus *fuksīnkrāsa* – means purple. *Fuksīns* is the same as magenta, used in printing (http://www.heidelberg.com/lv/www/lv/content/articles/tech_info/glossary_magenta).

The translation is meant for the readers who do not know the source language. A good translation is a translation that can be read as easily as a text in the native language.

The perception of the translation of "Blow Fly" by Patricia Cornwell is difficult, because it carries imprints of the source language – word order, unclear sentence structure, and even whole blurred paragraphs.

In figurative transferences, the characteristics that the association is based on should be perceptible also for readers of different cultural environments, e.g., the nickname *Papajs*. Sometimes figurative associations fail to come up because of an incomplete description, e.g., *pārmetās .. gluži kā akmens pār ūdeni*.

Translations should not use Russian calques (*mēs ar tevi, aiz sevis, pie sevis*) or constructions that do not correspond to the Latvian language cultural norms (*atbildēt zvanam, uzmin pedālim, pieķerdams cepurei, esmu ar to nesaskaņā*).

It is hard to read the translation when there are untranslated words, like, *beigelis, penthauss*. This translation method can be understood, as there are no equal correspondences in Latvian, but some wider descriptions would be necessary. Another unfamiliar word without a description is *fuksīnkrāsa*. The reader does not know the “new” name of forearm – *priekšdelms*. The word *paskats* does not fit in stylistically, and the word *halāts* does not correspond to the depicted culture.

Results of this study show that translators should master the source and target language equally, and their performance depends on hard work.

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EMPLOYMENT OPPORTUNITIES OF THE GRADUATES OF TRANSLATOR/INTERPRETER TRAINING PROGRAMMES: THE CASE OF VENTSPILS UNIVERSITY COLLEGE

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Abstract

In order to assess the quality of translator and interpreter training programmes and to ascertain the conformity of the planned learning outcomes to the situation in the Latvian labour market of translation services, as well as to maintain the feedback of programme graduates, a research project for and about graduates of the Faculty of Translation Studies of Ventspils University College was carried out in 2006–2007.

Being the Dean of the Faculty of Translation Studies and Director of one of the two translator and interpreter training Bachelor programmes offered by the Faculty (Sīlis, 2009: 230), the author of the article has always believed that one of the criteria of the study programmes' quality is the ability of graduates to obtain competitive jobs in their acquired profession. Therefore the article represents a survey of programme graduates' employment in the period of the last 10 years. Information analysed has allowed the author to draw certain conclusions that could be a proof of his belief.

Keywords: *quality, training programme, translators, interpreters, market of translation services, competitive jobs, survey.*

Introduction

With the political changes in Latvia in the end of the 1980ies and the beginning of the 1990ies, and especially after the country's accession to the European Union the demand for professionally trained translators and interpreters has been growing increasingly and steadily. Extremely rapid expansion of international political, economic, research, academic and other kinds of contacts has been and still is the driving force of the process.

The aim of the present article is to show that alongside with such important quality assessment criteria as systematic work at meeting the adequate targets of learning outcomes in the form of the necessary types of knowledge, skills and attitudes, the

graduates' competitiveness in the national and European market of translation and interpreting services is an objective and sufficiently reliable factor, due to its neutrality to possible manipulations exercised by the party (or Parties) interested in presenting an overly optimistic picture of the study programme's merits. The need for constant exchange of information between the graduates, study programme designers and academic staff in the process of monitoring the training quality emphasizes the topicality of the article's theme. The method of data analysis used by the author is description of the actual situation based on objective facts and statistical analysis of the collected information related to graduates' further careers.

In order of meeting the correlation of jobs obtained after graduation and study quality in the most optimal way, a survey of graduate employment of the existing Bachelor level professional translator and interpreter training programmes was conducted. A group of the academic staff of the Faculty of Translation Studies of Ventspils University College (hereinafter – VUC FTS) were motivated to start a research project with the aim of creating a website for and about the graduates of the Faculty. (Pavlovskā, 2008: 321–329) The project's aim was to gather information about the typical and individual cases of translator and interpreter training BA programme graduates' employment (the research project did not include a survey of MA students of the programme “Translation and Terminology” and “Translation of Legal Texts” for the reason that students of these programmes were former graduates of other higher education establishments and were already working before they began their studies in Ventspils at the Master level).

As it was stated above, the idea in the framework of the project “Creation of a Professional Orientation Website *tulki.venta.lv*” was to collect and examine data about the further education and employment of the maximum available quantity of graduates from professional Bachelor programmes of the VUC FTS.

One of the most essential aims was to understand how successfully the graduates of Ventspils University College have been able to integrate into the translation and interpreting services labour market both in Latvia and abroad.

Another objective of the project was to find an answer to the question of how many of the Faculty graduates have jobs in their profession and utilize general and specific knowledge as well as general and specific skills acquired in the study period, indispensable not only for the activities of translator and/or interpreter, but also useful for performing the duties of other jobs.

The survey covered the period from 2001 to 2006 (including the whole year of 2006, as the last data were obtained in the end of November, 2006) and showed that graduates are working not only as translators and interpreters, but occupy a variety of posts in governmental, municipal and other institutions of the Republic of Latvia and the European Union; part of graduates are self-employed or have founded their own businesses.

In Latvia with a population around 2,3 million, it was scarcely enough to have only the University of Latvia as a centre of training translators and interpreters. Therefore in the process of establishing a new government-founded higher educational institution in Ventspils – the present-day *Ventspils Augstskola* (Ventspils University College), it was decided to create a Translation Studies Department which in 2000 – after three years of expansion and development, was granted the status of Faculty. (Sīlis, 2006: 12–19)

As Ventspils University College was founded in July of 1997, the first students of two professional translator and interpreter training programmes graduated from Ventspils University College in June of 2001. Up to the present time there have been 9 sets of graduates in the two professional Bachelor study programmes training translators and interpreters with the total number of 364 graduates – 256 of them in the professional Bachelor programme “Translation/Interpreting from and into English – Latvian – Russian/German” and 108 – in the professional Bachelor programme “Translation/Interpreting from and into German – Latvian – Russian/English”.

Graduates of both programmes obtain not only a Bachelor degree, but also two kinds of professional qualification in conformity to professional standards “Translator” and “Interpreter” which have been approved by the Direction No. 405 adopted by the Ministry of Education and Science of Latvia on June 10, 2002.

In the aforementioned professional standards it is determined that translators and interpreters must acquire certain sets of knowledge types and skills. Knowledge types are further specified as general knowledge necessary to successfully perform either translator’s or interpreter’s job as well as knowledge common and knowledge specific for either translators or interpreters. The same applies to skills, that are general and specific skills needed either for translation or interpreting, or skills that are common for both. When preparing the pre-accreditation self-assessment report that is critically assessed by an international expert commission (members of the commission must represent at least 3 countries), these types of knowledge and skills must be explicitly shown as relevant to each of the study courses of the programme.

A great number of knowledge and skill types required in the professional standards correspond to the demands and criteria present in the EMT expert group’s document “Competences for Professional Translators, Experts in Multilingual and Multimedia Communication”. (Brussels, January 2009) Very similar conclusions as to the competence translators and interpreters are made by Russian experts of translation studies. (Komissarov, 2002; Alexeyeva, 2004)

Employment data of graduates (BA in translation and interpreting – 190 graduates) from 2001 to 2006.

Table 1

| The professional Bachelor programme: <i>Translation and Interpreting using English – Latvian – German/Russian as working languages</i> | The professional Bachelor programme: <i>Translation and Interpreting using German – Latvian – English /Russian as working languages</i> |
|--|---|
| 2001 – 16 graduates | 2001 – 10 graduates |
| 2002 – 19 graduates | 2002 – 10 graduates |
| 2003 – 21 graduate | 2003 – 8 graduates |
| 2004 – 17 graduates | 2004 – 10 graduates |
| 2005 – 25 graduates | 2005 – 10 graduates |
| 2006 – 34 graduates | 2006 – 10 graduates |
| 2007 – 25 graduates | 2007 – 13 graduates |
| 2008 – 24 graduates | 2008 – 11 graduates |
| 2009 – 34 graduates | 2009 – 10 graduates |
| 2010 – 41 graduate | 2010 – 16 graduates |
| Total – 256 graduates | Total – 108 graduates |

It is estimated that in June of 2011 there will be 42 graduates in the professional Bachelor programme “Translation/Interpreting from and into English – Latvian – Russian/German” alone (there will be 16 graduates in the German programme). The number of graduates in the professional Bachelor programme “Translation/ Interpreting from and into English – Latvian – Russian/German” is estimated to be 62 in 2012 and 61 in 2013, but in the professional Bachelor programme “Translation/ Interpreting from and into German – Latvian – Russian/English” – 11 in 2012 and 11 in 2013.

The survey of employment of graduates in the period from 2001 to 2007 has shown that out of 190 graduates 92 or 48,4% are working as translators and interpreters or both. 28 (30,4%) of these 92 graduates are employed in national and international translation/interpreting services in Latvia; 16 (17,39%) are free-lance translators and interpreters; 9 (9,9%) are interpreters or translators in the EU central institutions in Brussels, Luxembourg and Strasbourg. Jobs of 39 (42,4%) other translators and interpreters are at the State Chancellery, at the Parliament (the Saeima), ministries, foreign embassies, city councils, Translation and Terminology Centre of the Republic of Latvia (now part of the State Language Centre), joint ventures, publishing houses, internet portals etc.

9 (6,7%) graduates, after studying and graduating from professional MA programmes in translation and post-BA translation and interpreting programmes, now are (or have been in the recent past) lecturers and programme directors in translator/interpreter training programmes at Ventspils University College (Ventspils), Vidzeme University College (Valmiera) and School of Economics and Culture (Rīga).

7 out of these 9 now are doctoral students of the Ventspils University College PhD programme in Applied, Comparative and Contrastive Linguistics, 2 are writing dissertations on translation theory issues (translation theory and practice in Latvia from 1969 to 1990; notion of “translation space” in poetry, terminology and translation, theoretical aspects of interpreting).

30 (15%) of the graduates have combined work with further studies and have completed their studies or are still studying at the professional post-bachelor programme “Translation” (1,5 years, University of Latvia), professional post-bachelor programme “Interpreter” (1 year, University of Latvia – in 2009 substituted by an MA programme), professional Master programme “Translation and Terminology” (2 years, Ventspils University College), professional Master programme “Translation of Legal Texts” (1,5 years, Ventspils University College). (More detailed information about the translator and interpreter training programmes in Latvian institutions of higher education is available in another publication of the author of this article – see Sīlis 2009b: 244 – 262.)

Jobs of the remaining 98 graduates (51,6%): Head of the Quality Management Unit at the Investment Dpt of the Ministry of Environment, Head of Product Development Dpt at “Nexum Insurance Technologies”, Head of Marketing Dpt at Spice Ltd., Vice-president of External Relations of the “Air Baltic” company, flight attendant in “Emirates” company, Deputy Head of the Administrative Dpt of Ventspils City Council, teacher of English at a secondary school, Director of “Baltic Seafood Roja” (Norway – Latvia), Head of the Procurement Dpt at the construction technology company STV, senior corporate project manager at “Swedbank Latvia”, senior manager of the hotel “Talsi”, administrative director of the Marketing Dpt of Cēsis Brewery, resource manager of the Dpt of Linguistics and Reference Services of Tilde Ltd.

Table 2

| Position | Number of graduates |
|--|----------------------------|
| Administrative Head of Office | 16 |
| Project Leader/Coordinator/Manager | 12 |
| Personnel Management Assistant/Filing Clerk | 11 |
| Department Head or Deputy Head | 11 |
| Client Consultant/Client Manager | 9 |
| Owner of a business | 8 |
| Executive Director/Managing Director/Commercial Director | 4 |
| Assistant of a CEO | 4 |
| Flight Attendant | 3 |
| Other jobs (see the paragraph above) | 14 |

Role of the internship has appeared to be one of the decisive factors in helping the graduates to find appropriate jobs. Comparing places of 4 months-long internship (the whole Term 7) of the professional Bachelor study programmes, conclusions can be made that a significant number of students have so far been evaluated by representatives

of internship places as very well trained and competent would-be professionals, therefore many of them have been offered permanent jobs. It should be pointed out that students themselves are responsible for finding the Internship place. In case the student has not succeeded to find a place till 3 months before the Internship starts, she/he must explain the problem to the Internship coordinator. Student must have a written proof – for example, a written refusal signed by the company's representative on the student's letter of recommendation, of the fact that she/he has repeatedly and unsuccessfully sought for an Internship place, otherwise the University will not assist in solving the problem. So far all students have got a positive reply from an internship place on their first or second try – this is largely due to the reputation of translator and interpreter training at Ventspils University College. Display of student's own initiative in finding an internship place has an additional positive effect upon the future employers.

Places of internship must be chosen with an aim to provide both interpreting and translation practice, as well as all the three working languages. In order to have an opportunity of simultaneous interpreting, an annual conference on internship-related subjects should be organised at the College, during which students of Year 4 could perform both as speakers and simultaneous interpreters of their colleagues.

Below are few examples of internship places students have found themselves (during the first and, maximum, the second try) for the internship terms (September 1 – December 22) in the years 2000–2006:

- *central and local government sector* – the Saeima (Parliament) – 6 students (at present 3 of them are permanently employed), State Chancellery – 4 students, Ministries of Foreign Affairs (12 students), Economics (5 students), Agriculture (9 students), Environment and Regional Development (15 students), State Revenue Service, Customs Service of Latvia, State Security Services, Rural Support Service of Latvia, municipalities and municipal enterprises (utilities etc.) of Rīga, Ventspils, Liepāja, Cēsis etc.;
- *private sector* – translation agencies in Rīga, Liepāja, Daugavpils, Jelgava and Ventspils, major business companies of Latvia (mainly Rīga and Ventspils) connected with the Free Port of Rīga and the Free Port of Ventspils authorities, transshipping oil, oil products, ammonium, potassium salt, coal, grain etc., major banks of Latvia – branches of international banking consortiums;
- *international translation/interpreting market* – translation services of the European Commission – 5 students, Translation and Terminology Centre (now a department in the structure of the State Language Centre) established for translation of *acquis communautaire* texts – 55 students, foreign embassies in Latvia (US, Austria etc.), joint ventures both in Latvia and abroad.

Conclusions

The success of the professional Bachelor graduates with the qualification of translators and interpreters lies in the following factors:

- high reputation of the study quality at VUC FTS – translation professionals representing leading translation agencies based in Latvia, repeatedly report that graduates of VUC FTS are not asked to do the otherwise obligatory test translations before being admitted for jobs;
- favourable impression the final year students leave upon their future employers during the internship term – the fact has been proved by an unpublished survey done in 2009 by the translation agency *SDI Media Latvia*;
- help and support network including the first graduates occupying relatively influential positions and the academic staff of the Faculty.

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