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FROM THE EDITOR

Dear Reader,

This is the first issue for 2012 and we expect to be able to publish the second issue in autumn.

In this issue we have articles covering the fields of economics, economic history and language. The authors are both PhD students and established academics.

We expect to have the journal in the most common databases by the end of the year.

We hope you enjoy this issue and are looking forward to the second at the end of 2012.

Best wishes

Viesturs Pauls Karnups
General Editor

ATTITUDES REFLECTING NATIONAL IDENTITY OF LITHUANIAN STUDENTS

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Abstract

The article deals with the peculiarities understanding the attitudes of national identity in Lithuania. The aim of the research is to determine the subject matter and expression peculiarities of national identity among Lithuanian students. The objectives of the research are to perform a mass survey of Lithuanian student population together with statistical calculations of the obtained data; in addition, to analyse the structure of national identity of Lithuanian students from the phenomenological point of view, and to define the national identity indicators representing the cultural context of the country.

The following dimensions of Lithuanian students' attitudes that reflect national identity were indicated with the help of factorial validation: 'ethnocentricity', 'reflective and democratic' attitude towards national identity, 'moderate and rational' attitude towards national identity, 'anti-ethnocentric' attitude towards national identity (relatively cosmopolitan), 'nationalistic' attitude towards national identity. The statements that represent ethnocentric attitude towards national identity have received the highest support, while the support of extreme national identity attitudes is much weaker.

After the application of different factorial analysis models, after the combination as well as elimination of certain scales, after the exclusion of categories that 'disrupt' the model, the attitudes that reflect national identity were revealed to polarize quite clearly into two following constituents that sometimes even contradict each other: 'modern' and 'traditional' attitudes towards national identity.

Multidimensional Scaling (MDS) was used for the identification of total identity structure. MDS model includes three scales that describe the 'traditional' attitude towards national identity ('ethnocentricity', 'nationalism', 'moderate and rational' attitudes towards national identity decisions), and two scales that describe the 'modern' ('reflective and democratic' as well as 'anti-ethnocentric' attitudes towards national identity decisions). MDS model reveals a statistically pure and theoretically significant complex structure of the peculiarities which were analysed.

With the help of K-Mean cluster analysis, there were particular statistical types of academic youth identified in the research. These types develop according to the youth's 'modern-democratic' or 'traditional-conservative' attitude towards national identity. Rather differently profiled groups of academic youth (depending on national identity) were found to exist. Four following statistical types of Lithuanian students were revealed that develop depending on the expression of national identity attitudes: 'modernists', 'ethnocentrists', 'dualists', and 'indifferent'.

This research proved that national identity is an extremely complex psychosocial phenomenon, which is affected by personal, social, political and other factors.

The influence of social-demographic variables on the attitudes to nationality has been determined. The influence defined is theoretically meaningful and statistically plausible in many cases.

Keywords: Lithuania, national identity, social attitudes, nationalism, cosmopolitanism.

Introduction

Identity is the heart of a personality that gives meaning and importance to the world of an individual (Marcia, 1993, p. 7). In psychology the concept of identity is perceived as a personal ability to define oneself while responding to the question 'Who am I?' and combining the received responses. Personal identity or self-image marks human wholeness, gives a sense to his/her goals in the way of life, helps understand his/her place in the world, and to evaluate what and why one or another object or/ and subjects of social environment are significant to an individual.

Personal identity is a multiple formation. Erikson (1968) noted that it is meaningful to distinguish the spheres of identity. Contemporary researchers follow the approach, i.e. Grotevant (1993, p. 121-46) maintains that identity development in various spheres is diverse and asynchronous for a person and therefore, according to him, it is meaningful to distinguish the spheres of identity. Various researchers emphasize different aspects of identity. For instance, Archer (1992, p. 25-49) distinguishes ideological and interpersonal human identity, whereas Marcia (1993, p. 1-21) describes professional, attitudinal and interpersonal spheres. Newman and Newman (1979) claim that integrated personal identity includes sexual, moral and political identity.

In sociology identity most commonly is defined as the way that individuals label themselves as members of various social groups, i.e. nation, gender, class, subculture, etc. One of the most important areas of identity is a national identity. This aspect of identity has received a special attention of researchers during the last few decades due to the (re)establishment of a number of new nation-states, firstly – in the post-communist Europe.

The conceptualization of nationality and national identity is far from unanimous in social sciences. Moreover, various interpretations of these concepts are constantly evolving and acquiring a different meaning while the society is becoming more and more complex. In the context of this article, nationality is conceived as an expression of human identity specifying its relation to the world, other nations and belonging to an 'imaginable' (Anderson, 1999, p. 21) human community that is distinguished

by its specific features and is more bound with spiritual ties than with pragmatic ones.

National identity is often approached as a universal psychological process of social identification, as a certain conditionally stable state created or acquired by an individual that is related to consciously engaged involvement into the social environment. It is a dynamic, multidimensional construct that develops and functions according to certain social-psychological laws and performs a range of functions. Identity in general, and consequently national identity, is related to individual reflection, awareness of one's place and role in the world (Phinney 1990, p. 500; 1996, p. 922; Salazar 1998, pp. 120-2; Kroger 2000; Blank 2003, pp. 126-9; Abell 2006, p. 210, etc.).

National attitudes are defined as social attitudes that define how an individual perceives himself/herself and the surrounding world, how he/she feels and behaves in any sphere of activity (professional, political, cultural, etc.) through the prism of belonging to a national (ethnic) group. The concepts of national identity and attitudes reflecting national identity are used as synonyms in this article, although they are not identical in a broader context.

National attitudes might be described as internal generalizations arising from individual cognition (knowledge and insights related to one's own nationality), beliefs (self-stereotypes of nationality), emotional experience, specific non-national attitudes, needs, values, intentions (of behaviour related to nationality) and actions related to one's country and the people. The most important factor conditioning the development of national attitudes might be considered national socialization. First national emotions, primary beliefs, values and all other experience of a person related to nationality are acquired namely via socialization.

The notion of national identity involves individual readiness to acquire or internalize various attitudes related to nationality from such emotional and information sources as school, church, family, politicians, mass media, etc. National identity conceived in this way may vary in a continuum from nationalist to cosmopolitan with a neutral position in the centre. Although the types of national attitudes may be distinguished most perfectly using the concepts like 'nationalism' and 'cosmopolitanism', a wide scale of intermediate dimensions is also distinguished among the political attitudes reflecting national identity. Therefore, it is meaningful to resolve the analysed construct into more specific intermediate attitudes reflecting national identity (Blank, Schmidt, 2003, p. 291).

A wide conceptualization of social attitudes reflecting national identity determines that the above mentioned phenomenon may be dimensionalised very differently. Thus, when seeking to determine the main dimensions

of attitudes reflecting national identity, researchers associate national identity with various phenomena: respect of the nation's history, heritage protection, attachment to the place of residence, pride of national sports' victories, attitudes towards national minorities, etc. (Kosterman, Feshbach, 1989, pp. 262-71; Abell *et al.*, 2006, p. 208).

Contemporary studies of national identity might be divided into two main fields, i.e. a theoretical analysis of the phenomenon and empirical research. Empirical research into national identity also has a certain history and, despite methodological difficulties faced while investigating the phenomenon, they appear in abundance (Giles *et al.* 1976, pp. 11-19; Phinney, 1990, pp. 499-514; Huddy, 2001, pp. 129-132; Dekker *et al.*, 2003, pp. 345-371; Blank, 2003, pp. 259-288; Muldoon *et al.*, 2007, pp. 89-103, etc.). However, first empirical studies of national identity started after Lithuania regained independence in early 1990-s. In 1992 the Department of Ethnosociology and Stratification was established in the Institute of Sociology and Law in order to pursue specific sociological surveys on the topic of nationality. Afterwards several theoretical works have been published on the topic of national/ethnic identity in Lithuania (Statkus, 2003; Statkus, 2004; Grigas, 1998, 2001, 2004; Kasatkina, Leončikas, 2003).

Western studies are undoubtedly very significant and interesting, yet such psychosocial phenomenon as national identity is far from being universal and hardly submits to intercultural generalization. Consequently, statistical regularities and theoretical concepts, which emerge in certain countries and cultures cannot be directly transferred and applied in other social environments. The study of national identity that corresponds to present realities in Lithuania is particularly important as it might help to reveal a culture-specific expression of national identity phenomenon in the country.

Not accidentally students' population was chosen for this study as in the coming years it tends to lead the country intellectually, culturally, political and economically. On the other hand, an initial socialization of this group of population is still an on-going process; identities of the youth are still developing and they have to make important choices in their life: to stay in Lithuania or emigrate, to cherish nationality or become 'citizens of the world', etc. The study of national identity of the youth as a social group is significant in terms of prognostication possibilities, and also because of the fact that the empirical knowledge of national identity among young people is highly incomplete.

The main objective of this study was to describe the content of Lithuanian students' attitudes reflecting national identity, to analyse the peculiarities of their expression and to disclose the psychosocial and

demographic factors (gender, nationality, age, value-orientations, political and religious attitudes, aspirations of work expression, self-concept, etc.) that condition these attitudes.

Methodology

Respondents and sample

The results of the research into attitudes reflecting national identity were obtained in the population of Lithuanian students. Field-work was carried out in Vilnius, Kaunas, Marijampole, Klaipeda, and Panevezys, i.e. all major cities of Lithuania. While choosing the groups, not only geographic, but also many other factors were considered, such as study trend, study level, prestige of the university, etc. Finally, students from 9 universities, 2 colleges and 3 vocational schools were surveyed. Among them 80 per cent were undergraduate students and 20 per cent of graduate students. As many as 73 per cent of students studied in the field of social sciences and humanities, 21 per cent studied in the field of engineering and 6 per cent in natural sciences. The majority of students, i.e. 92 per cent (N=654) were Lithuanians and the remaining 8 per cent (N=58) were foreign-born Lithuanian inhabitants.

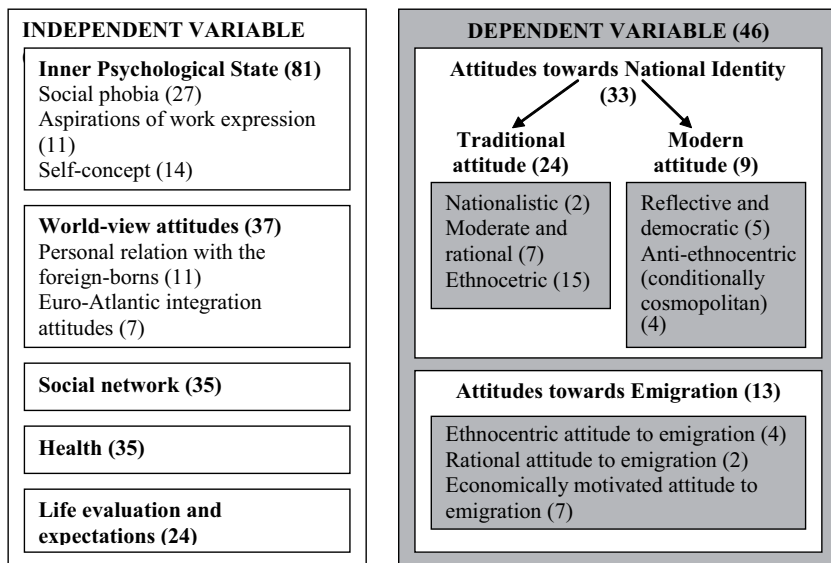
Design of the study

The problems of national identity in the globalizing world are extremely important; however, a search of most effective ways to study national identity empirically is not over yet as it is a very complex social psychological phenomenon.

A basic instrument of empirical research was a closed-ended questionnaire, which had to be responded in writing. While developing a measuring instrument, a psychometrical survey approach was chosen. It means that respondents were not asked to confirm the facts but it was aimed their attitudes to reveal implicitly using a series of questions (items) presented inconsistently in terms of content on purpose. When applying this strategy, individual items are not employed; indexes and scales are operated instead. While developing the instrument, an answer format in five stage Likert scale was chosen from 'I agree completely' to 'I disagree completely'.

The questionnaire was designed in such a way that nationality attitudes, congenerous emigration attitudes and various psychological, personal world-view, social factors that could influence hypothetically and explain them would show up. Therefore, dependent variables of the study are attitudes reflecting national identity and emigration intentions, whereas,

independent variables are psychological, social and attitudinal factors. General study design is presented in Figure 1.



* The number of items in the scale is indicated in brackets.

Figure 1 Design and variables of the study

The complex questionnaire, which is fairly long, comprises 299 items in total. In order to avoid the respondents' fatigue effect, it was decided to divide the questionnaire into two separate questionnaires. Thus, each respondent had to be surveyed twice using different questionnaires. The first questionnaire was used to ascertain social-demographic characteristics of the respondents, i.e. gender, age, nationality, parents' nationality, marital status, social-economic status and other similar aspects (see Figure 2). This part of the questionnaire also contains questions that help to reveal youth's attitudes towards nationality and emigration as well as their structure.

The second questionnaire was designed to highlight independent variables. This part of the questionnaire comprised 12 scales: personal relation with the foreign-born, religious and political attitudes, social phobia, value-orientations, self-concept, social network, health, aspirations of work expression, etc. The second questionnaire was presented to the respondents during the second survey session. Since the survey took place twice, each respondent had a special code and a special software that later linked the data of different measurements into one statistic matrix.

INDEPENDENT VARIABLES (41)	
Gender	Place of residence
Age	Marital status
Nationality	Spouse's nationality
Father's nationality	Caree (11)
Mother's nationality	Social-economic status (16)
Nationality indicated in one's Passport	Experience of living abroad (5)

Figure 2 Independent variables

Due to the limited space of this article, it would be problematic to introduce all study data comprehensively. Consequently, only attitudes reflecting national identity are analysed in this article, not involving youths' attitudes towards emigration.

Main findings and discussion

Factor Structure of Attitudes

Since the spectrum of attitudes may be broad, it was attempted to encompass as many factors reflecting national identity as possible when constructing the instrument of research. Consequently, the scale of social attitudes is made of 33 items, the semantics of which is oriented towards disclosure of rather diverse and distinct aspects of national identity.

Factor validation was applied as the main method to design the scales in the study. When developing the scales, the data of the whole sample (N=1 002) was used. All the other study results were obtained exclusively in student population (N=712). Table 1 indicates the structure of diagnostic instrument scales and the characteristics of psychometrical quality. The indicated statistical indicators are the following: 1) values of *Cronbach-alfa* coefficient; 2) an average inter-correlation between items as well as minimal and maximum correlation; 3) i/it-item discrimination; 4) L – factor loadings; 5) general explained dispersion of factor model.

Table 1 Dimension of National Attitudes

Name of scale (index)	Items summarized in scale	i/tt	L	%
Nationalistic attitude to nationality	• I'm concerned that Lithuania would regain its lost territories. (M=1.75, SD=1.42)		0.74	12
	• Lithuanian nation is better than other world nations. (M=1.18, SD=1.20)		0.69	
Cultural and civic commitments to the nation $\alpha=0.84$ 0.37 0.12-0.58	• I care about preservation of nationality and cherishing of traditions. (M=2.99, SD=1.09)	0.67	0.75	28
	• I care about safety of the Lithuanian language. (M=3.18, SD=1.05)	0.64	0.72	
	• It is the duty of every Lithuanian to protect the dignity of the nation. (M=3.26, SD=0.93)	0.64	0.72	
	• I care about present and future of Lithuanian nation. (M=3.39, SD=0.85)	0.55	0.68	
	• I care about the safety of Lithuanian territory. (M=3.27, SD=1.03)	0.66	0.64	
	• It is the duty of every Lithuanian to resist debasement of nationality. (M=3.23, SD=0.96)	0.57	0.64	
	• I feel committed to protect Lithuanian nation. (M=2.39, SD=1.25)	0.54	0.56	
	• I am interested in past and history of Lithuania. (M=2.82, SD=1.19)	0.41	0.55	
	• I'm worried about denationalization of Lithuania. (M=2.19, SD=1.41)	0.34	0.39	
Nationally engaged position (subjective importance of nationality to a person) $\alpha=0.67$ 0.36 0.14-0.50	• I am a patriot of Lithuania. (M=2.16, SD=1.35)	0.57	0.76	28
	• National belonging is significant to me. (M=2.54, SD=1.31)	0.50	0.74	
	• I think it is important for a human being to represent one nation or another. (M=3.15, SD=1.14)	0.33	0.64	
	• Nationality has always been cherished in my family. (M=2.15, SD=1.32)	0.43	0.61	
Influence of nationality on a person	• Nationality affects my beliefs and philosophy of life. (M=1.95, SD=1.35)		0.88	13
	• Nationality affects my behaviour and the aims in life. (M=2.04, SD=1.32)		0.87	
National self-determination	• I think that a person may choose nationality. (M=1.94, SD=1.60)			

Name of scale (index)	Items summarized in scale	i/tt	L	%
Genetic factor	<ul style="list-style-type: none"> In my opinion, a person's nationality is determined by parents' nationality (origin). (M=0.86, SD=0.34) 			
Reflection of nationality $\alpha=0.65$ 0.38 0.31-0.43	<ul style="list-style-type: none"> I often reflect my national belonging at this point in my life. (M=1.27, SD=1.38) 	0.51	0.81	59
	<ul style="list-style-type: none"> I used to often reflect the question of nationality. (M=0.73, SD=1.08) 	0.44	0.76	
	<ul style="list-style-type: none"> I sometimes think about the factors that determine person's nationality, or in other words, what conditions that a human being is Lithuanian, Russian, Polish, etc. (M=1.62, SD=1.44) 	0.42	0.73	
Anti-ethnocentric (conditionally cosmopolitan) attitudes $\alpha=0.53$ 0.22 0.09-0.34	<ul style="list-style-type: none"> I avoid talking about nationality since this annoys me. (M=1.00, SD=1.20) 	0.33	0.67	21
	<ul style="list-style-type: none"> I think that nationality lost its value after Lithuania had regained its independence. (M=1.66, SD=1.40) 	0.44	0.64	
	<ul style="list-style-type: none"> Nationality is significant to me only at certain points in my life. (M=1.90, SD=1.43) 	0.31	0.63	
	<ul style="list-style-type: none"> I think that patriotism in 21st century is a step back and therefore, talking about patriotism annoys me. (M=1.32, SD=1.27) 	0.20	0.50	
Identification as an outcome of socialization and adaptation $\alpha=0.71$ 0.33 0.25-0.46	<ul style="list-style-type: none"> In my opinion, a person's nationality is determined by emotional link with the nation. (M=0.35, SD=0.48) 	0.46	0.74	29
	<ul style="list-style-type: none"> In my opinion, a person's nationality is determined by orientation to nation's cultural traditions. (M=0.37, SD=0.48) 	0.50	0.72	
	<ul style="list-style-type: none"> In my opinion, a person's nationality is determined by upbringing in the spirit of nation's traditions. (M=0.40, SD=0.49) 	0.46	0.66	
	<ul style="list-style-type: none"> In my opinion, a person's nationality is determined by concern with one's state. (M=0.22, SD=0.41) 	0.48	0.63	
	<ul style="list-style-type: none"> In my opinion, a person's nationality is determined by participation in nation's political life. (M=0.14, SD=0.35) 	0.44	0.53	
Topographic factor	<ul style="list-style-type: none"> In my opinion, a person's nationality is determined by place of residence. (M=0.50, SD=0.50) 			
Linguistic factor	<ul style="list-style-type: none"> In my opinion, a person's nationality is determined by language. (M=0.55, SD=0.50) 			

As national identity's attitudes like other social attitudes range from positive to negative pole, the scales are presented in Table 1 trying to retain some consistency: from extremely positive (nationalistic) to most negative in terms of nationality social attitudes. It should be mentioned that the scales have conditional names, the connotation of which may differ from traditional meaning used in science.

It may be noted that a psychometrical quality of the measurement varies from very good to satisfactory. In some cases, the scales have small internal consistency (*Cronbach-alfa* ranges from 0.53 to 0.84). In any case, the quality of the scale is judged about on the grounds of other indicators accepted in test theory and practice, specifically factor loadings. Considering the fact that not individual but group data are operated on the basis of this study, the psychometrical quality of the obtained scales is acceptable.

In pursuance of clearer and more generalized structure of students' national identity attributes, multistage factor analysis was performed with evaluations of national attitude scales. For the sake of clarity, the results are not presented consistently and fully, in line with study course; yet the final result is presented that is obtained after the range of factorisations had been performed, i.e. some scales had been clustered, some categories that destroyed the model of factor analysis had been eliminated.

Table 2 Final Data of Multistage Factor Analysis of Attitudes Reflecting National Identity

FACTORS SCALES (INDEXES)	1 st factor 27.8%		2 nd factor 23.3%	
	'TRADITIONAL' nationality L	Cron- bach α	'MODERN' nationality L	Cron- bach α
'Ethnocentrism' (15 items)	0.74	0.88	-0.35	
'Nationalist' attitude to nationality (2 items)	0.56	---	-0.02	
'Moderate and rational' attitude to national self-determination (7 items)	0.53	0.71	0.16	
'Reflective and democratic' attitude to nationality (5 items)	0.39		0.72	0.47
'Anti-ethnocentrism (conditional cosmopolitanism)' (4 items)	-0.33		0.71	0.53
Total number of items 33		0.83		0.53

The final data of factor analysis of the attitudes reflecting national identity allow talking about their two-dimensional structure (see Table 2). The attitudes are clearly polarized into two constituents that sometimes

oppose each other: 'traditional' and 'modern' approach to nationality. It should be noted that statistical feasibility of factor analysis data is tolerable. KMO indicator of 0.50 is not high yet the indicators of explained dispersion are sufficient. The whole model of two factors explains 51.1% of dispersion of the analysed attributes. Dispersion of single factors is fairly high: 23.3% and 27.8%. The majority of factor loadings obtained in the model are sufficiently high as well, $0.53 \leq r \leq 0.74$, which reveals that formed categories are relevant, as they meet the methodological standard of construct validity.

A decisive object to validate suitability of factor analysis is a possibility to interpret variables in the factor theoretically. The model obtained meets this condition. It is theoretically meaningful and statistically correct. Table 2 reveals that variables in the first factor semantically reflect 'traditional' attitude to nationality, whereas the variables multiplexed into the second factor reflect the 'modern' one. The first factor comprises the scales like 'ethnocentric' (obtained having linked the scales of 'nationally engaged position', 'impact of nationality on a person' and cultural and civil commitments to nation' (*Cronbach-alfa* 0.88)), 'nationalist' and 'moderate and rational' attitude to national self-determination (obtained having linked the scales of 'identification as an outcome of socialization and adaptation', 'linguistic factor' and 'topographic factor' (*Cronbach-alfa* 0.71)); the second includes 'reflective and democratic' (obtained having linked the scales of 'reflection over nationality', 'genetic factor' and 'national self-determination' (*Cronbach-alfa* 0.47)) as well as 'anti-ethnocentric' attitude to nationality (*Cronbach-alfa* 0.53).

Hierarchy of Attitudes

Each item of nationality scale and each scale multiplexed using factor analysis allows evaluating a certain dimension of national identity. Statistical data of acceptance to national attitude scales and acceptance ratings are presented in Table 3.

The highest percentage of student medium acceptance is in the scale of 'ethnocentrism', and the lowest is in the scale of 'nationalism'. Even 92.3 % of respondents agree with the item 'I care about Lithuanian nation's present and future' in the scale of 'ethnocentrism'. A fairly high students' acceptance received for the majority of items in the scale which is reflected by the minimum acceptance (43.1%). The lowest acceptance (8.4%) is attributed to item 'Lithuanian nation is better than other world nations' in the scale of 'nationalism'. Table 3 clearly reveals that acceptance of extreme positions of national attitudes, i.e. 'anti-ethnocentrism' (conditional cosmopolitanism) and radical 'nationalism' is the lowest. The decrease in number of respondents who agree with extreme attitudes possibly allows admitting that these

national attitudes are related to more complicated personal-psychological processes than more restrained or intermediate attitudes.

Table 3 Rating of Student Acceptance of National Attitudes according to Different Spheres

$N_{\min} = 697, N_{\max} = 712$

NAME OF SUBSCALE (INDEX)	Number of items	Mean	Standard deviation	Standard error	Min acceptance	Max acceptance	Medium acceptance
	Units	M	SD	SE	%	%	%
'Ethnocentrism'	15	2.47	0.73	0.03	43.1	92.3	67.7
'Reflective and democratic' attitude to nationality	5	1.98	0.66	0.02	9.9	86.7	53.3
'Moderate and rational' attitude to national self-determination	7	1.64	0.80	0.03	14.6	55.1	34.9
'Anti-ethnocentric' attitudes (conditionally 'cosmopolitan')	4	1.42	0.85	0.03	13.9	44.4	26.8
'Nationalist' attitude to nationality	2	1.30	0.99	0.04	8.4	26.4	17.4

The average percentage of student acceptance of the items reflecting 'traditional' (50.4%) and 'modern' (48.3%) attitude to nationality is rather close.

Aggregate Structure of Attitudes

The factor analysis allowed determining the internal structure of a person's national identity. However, it is meaningful to search for a generalized, holistic structure of identity. This is possible if variables of national identity are analysed simultaneously *in corpore*. To realize the task, the method of (*Multidimensional Scaling*) MDS is used. MDS is relevant to use when various psychosocial objects have to be rated by respondents. In this case, these are the dimensions of 'traditional' and 'modern' attitudes to nationality.

The model of MDS includes three scales that reflect 'traditional' attitude to nationality ('ethnocentrism', 'nationalist attitude to nationality' and 'moderate and rational attitude to national self-determination') and two scales that reflect the 'modern' one ('anti-ethnocentrism or conditional cosmopolitanism', 'reflective and democratic attitude to nationality'). MDS

results based on a fairly high ‘statistical purity’ of the model (Stress=0.09, RSQ=0.97) are presented in Figure 3.

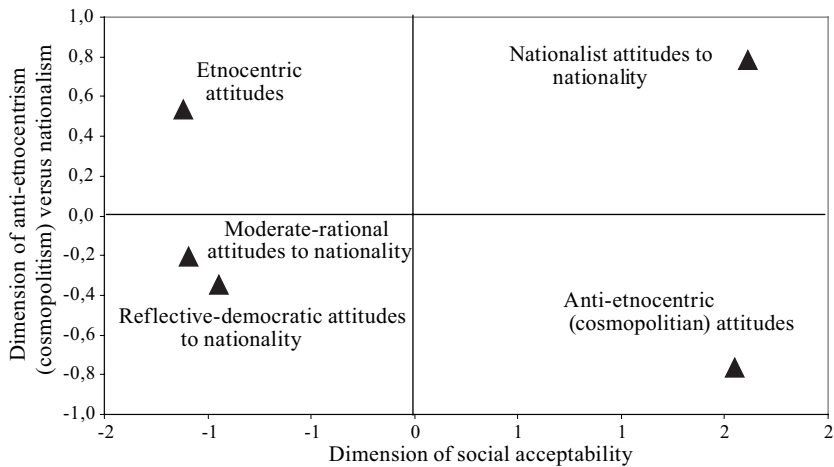


Figure 3 MDS Diagram of National Identity Attitudes

The MDS results reveal theoretically meaningful complex structure of the analysed attributes. MDS is applied when the obtained psychosemantic dimensions are possible to be interpreted theoretically in a meaningful way, naming axes X and Y. In this case the X-axis may be conditionally named the dimension of ‘social acceptability’, whereas Y-axis may be named the dimension of ‘anti-ethnocentrism (cosmopolitanism) versus nationalism’.

The MDS model was analysed according to each axis separately. It is evident that in regard to the vertical Y-axis ‘anti-ethnocentric (cosmopolitan)’ and ‘nationalist’ attitudes to nationality maintain the greatest distance from one another. The remoteness of the scales in the space confirms their polarity. In between of these two poles, other dimensions of the attitudes reflecting national identity are positioned in a logical sequence. Consequently, the obtained scale may be interpreted as a consistent scale of national identity ranging from one extreme ‘anti-ethnocentric (cosmopolitan)’, reflective-democratic, ‘moderate-rational’, ‘ethnocentric’ to another extreme – ‘nationalist’ attitude to nationality. It is possible to claim that the developed model of gradation of national identity expressions reflects some critical states of Lithuania students’ attitudes.

The model of gradation of national identity expression disclosed a consistent sequence of degrees of expression of Lithuanian students’ national identity: ‘nationalist’ attitude to nationality; ‘ethnocentrism’; ‘moderate and rational’ attitude to national self-determination; ‘reflective

and democratic' attitude to nationality; 'anti-ethnocentrism and conditional cosmopolitanism'. Although it seems that this model reflects a trivial truth, it is a very important proof of methodological construct validity.

An obvious polarity is also noticed in horizontal X-axis. There are two opposites that are unified by the dimension of social acceptability *versus* unacceptability. 'Nationalist' and conditionally 'cosmopolitan' attitudes to nationality fall into different areas of the diagram than 'ethnocentric', 'moderate-rational' and 'reflective-democratic' ones. On the left of MDS scale, socially more attractive and more acceptable approaches to nationality may be seen that are 1 point away from the centre of axes. 'Ethnocentric', 'moderate-rational' and 'reflective-democratic' attitudes to national self-determination belong to this group. On the right, 'nationalist' and 'cosmopolitan' attitudes are located even 2 points away from the axes. Thus 'nationalism' and 'cosmopolitanism' assimilate in terms of social acceptance. The difference between socially attractive and unattractive positions of nationality is significant i.e. it reaches up to 3 points.

Thus the MDS model developed according to respondents' attitude to nationality allows reasonably talk about a person's engagement to nationality scale from one extreme position to another (from 'nationalism' to 'anti-ethnocentrism (conditional cosmopolitanism)') and about the scale of attitudes to nationality in terms of social acceptance (from socially acceptable 'ethnocentric' to unacceptable 'nationalist').

Typology of Attitudes

While using *K-Mean Cluster* analysis, it is attempted to identify particular statistic types of students that develop according to their 'modern-democratic' and 'traditional-conservative' attitude to nationality. Clustering results are presented in Figure 4. It emerged that four student groups exist diversely graded according to national attitude.

The group that was conditionally named 'modernists' contains the lowest number of respondents (14.9%). 'Modern-democratic' attitude to nationality is expressed strongly and 'traditional-conservative' one is expressed weakly by students in the group. People who belong to the type tend to regard nationality superficially and passingly. They are not nationally engaged, they do not feel patriots of their country, do not appreciate traditional values. People of this type seem to feel 'citizens of the world'.

One fifth of the respondents (21.3%) are characterized by the opposite features. This group is conditionally named 'ethnocentrists'. They have 'traditional' attitude towards nationality and their 'modern-democratic' attitude is expressed weakly. People who belong to this group are strongly engaged, committed to nation, appreciate national values and traditions.

Nationality has a huge impact on 'ethnocentrists' behaviour, creed, life philosophy and goals. They consider themselves patriots of their nation, worry about the future of Lithuania and relate their own future with Lithuania.

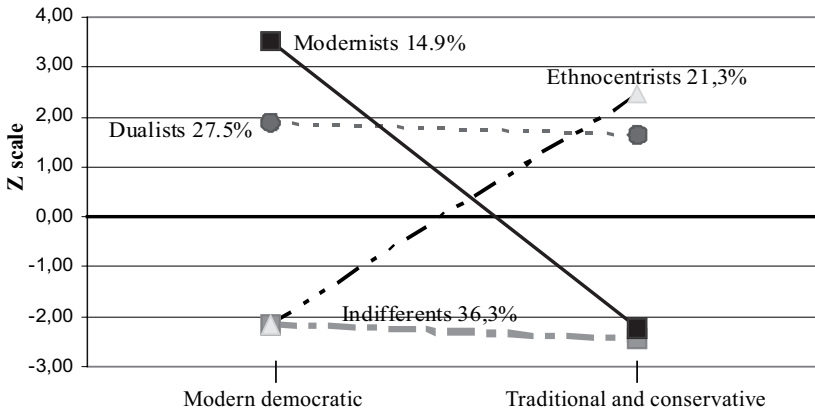


Figure 4 Attitudinal types developed along 'modern-democratic' and 'traditional-conservative' views to nationality

The student group where a both 'modern' and 'traditional' attitude to nationality is expressed strongly is called 'dualists'. More than one fourth of respondents (27.5%) are attributed to this statistical type. Respondents in this group had ambiguous opinions about nationality. Since their attitudes are 'traditional' from one point of view, and 'modern' from another, yet quite clearly expressed in both cases, one could expect it to be the most flexible type in terms of views on nationality. They appreciate nationality, respect national values; yet they do not blindly stick to national belonging. They see the processes of globalization and feel free to make decisions.

The most numerous group is characterized by weakly expressed attitude to nationality; this group is indifferent in terms of nationality. Presumably, this group is reasonably named 'the indifferenters' (36.3%).

Factors Influencing Attitudes

The second task of the study was to group the correlations between attitudes reflecting Lithuanian students' national identity and certain psychosocial characteristics. Independent variables of the study (see Figure 1) were operationalized using 212 items and later clustered into larger subgroups (subscales) applying factor analysis. Statistical relations between dependent variables (national attitudes) and independent variables were estimated while applying correlation and regressive analysis.

From the scales reflecting psychological state of individuals, national attitudes are mostly affected by value-orientations, aspirations of work expression and social phobias; that are least affected by psychological state and self-image. A more expressed 'traditional' attitude to nationality is related to personal and social values (moral, freedom, friendship and the like), whereas the 'nationalist' attitudes is reliably related to power and hedonistic values (material welfare, pleasures, acknowledgment by the people) in terms of statistics.

Students' attitudes to nationality are related to various kinds of social phobias as well. 'Traditional' nationality is mostly affected by political and denationalization phobias. 'Anti-ethnocentric (conditionally cosmopolitical)' attitude representing 'modern' nationality is related to such adverse psychological states as depression and anxiety.

The relationship between national identity and some world-view attitudes were analysed as well. Mostly dependent variable is affected by personal relation with the foreign-born and by his/her attitudes towards Euro-Atlantic integration of Lithuania in recent years. There is a trend that students who are more 'ethnocentric' were more restrained towards the foreign-born, strive to preserve 'purity' of the nation, more likely assess emigration possibilities negatively. The 'Modern-democratic' attitude to national self-determination, corresponds to a more positive personal relation with the foreign-born and more positive emigration attitudes. It became clear that personal religiosity or that of closest environment is somewhat related to a more nationally engaged position and commitments to the nation.

The impact of various social-demographic factors on students' attitudes of national identity was estimated applying the criteria of *Mann-Whitney* and *Kruskal-Wallis*. These tests revealed that national attitudes are systematically affected by social-demographic variables. Some general trends are evident; for example, 'traditional' nationality is characteristic to elder people with higher level of education. This attitude is more common to female students according to all dimensions, except for the extreme dimension of 'nationalism'.

Finally, it may be noted that the factual material about expression of Lithuanian students' national identity, levels of attitudes reflecting national identity and their polarization was obtained in the course of the study and may be interpreted rather meaningfully in theory. Moreover, external factors and independent variables that can explain the expression of national identity in student population were disclosed.

Recently radically-spirited people have started to show themselves and prompt the youth to cluster into self-defence bands while organizing anti-Semitic attacks and protecting national 'purity' in other ways. Plenty of

nationalist propaganda intended for young people may be found on the Internet. Many young people surrender to their influence. On the other hand, young people more as ever are willing to become 'the citizens of the world', to emigrate to the West in order to create better future for themselves and their children. Consequently, the state of national identity in the Lithuanian population is changing rather quickly; therefore, it would be meaningful to collect as much information about the youth's attitudes reflecting national identity as possible.

Conclusions

1. The study allows the identifying of a statistically valid structure of national identity attitudes that can be theoretically interpreted.
2. Empirical investigation of attitudes revealed that national identity is a truly complex and multidimensional construct. Using factorial validation, the indexes of the attitudes reflecting Lithuanian students' national identity emerged: 'nationalist' attitude to nationality, 'ethnocentrism', 'moderate and rational' attitude to national self-determination, 'reflective and democratic' attitude and 'anti-ethnocentrism (conditional cosmopolitanism)'.
3. The complex model developed using multi-stage factor analysis reveals a two-dimensional structure of attitudes reflecting national identity. The attitudes are quite notably polarized into two constituents of 'traditional' and 'modern' nationality.
4. The gradation model of Lithuanian students' national identity expression was obtained using Multidimensional Scale (MDS); it reflects the sequence of nationality states: 'nationalistic', 'ethnocentric', 'moderate and rational', 'reflective and democratic' and 'anti-ethnocentric (conditionally cosmopolitan)' attitudes to nationality.
5. Typological diversity exists in Lithuanian students' population in terms of national identity. Four statistical types of Lithuanian students that develop according to the expression of national attitudes were obtained using cluster analysis: 'modernists', whose relational distribution in the population of Lithuanian students is about 14.9%, 'ethnocentrists' (21.3%), 'dualists' (27.5%) and 'the indifferent' (36.3%).
6. Attitudes reflecting Lithuanian students' national identity are systematically affected by various internal psychological states and world-view attitudes: personal values (various types of prevailing values), personal auto conception, interest (or disinterest) in politics, evaluation of personal professional perspective, experienced social phobias, some parameters of social network, other characteristics of a person and his/her psychosocial situation. It should be noted

that the relations mentioned here are statistically significant and are meaningfully interpreted in theory.

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COMPETITIVENESS OF LATVIAN COMPANIES IN PEOPLE'S REPUBLIC OF CHINA

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Abstract

Competitiveness is a multidimensional research phenomenon. The results of a company's performance are one of the key aspects in research of competitiveness. The competitiveness of companies is a concept that involves many aspects of measurement. There are many models that can be used to assess the international competitiveness of companies, including the competitiveness of foreign companies in the market of the People's Republic of China (China). The opportunities of Latvian companies to enter the Chinese market and the capabilities of Latvian companies to compete in China have not so far been sufficiently studied. In 2010 the export volume of Latvian companies to China was 25 million EUR and more than half of it was export of raw materials. The model of SME competitiveness is used to research the competitiveness of Latvian companies in Chinese market. This article analyses the theoretical concepts for competitiveness of companies in China and the competitiveness of Latvian companies in China.

Keywords: China, competitiveness of companies, Latvia, export.

Introduction

The objective of this article is to assess the competitiveness of Latvian companies in the Chinese market. The tasks of the study are to analyse the theoretical concepts for the assessment of a company's competitiveness in Chinese market, to analyse the operation of Latvian companies in China and to suggest proposals for improvement of the competitiveness of Latvian companies in China. The methods of the study are systematic, logical and comparative analysis of scientific literature, analysis of statistical data and expert method.

Competitiveness is a multidimensional research phenomenon. There are several forms of competitiveness that makes it necessary to study various types of competition: the competitiveness of nations, the competitiveness of companies, the competitiveness of regions, the competitiveness of cities, the competitiveness of industries and international competitiveness. The various competition levels and diversity of approaches make it widely

applicable and valid in economic studies. Competitiveness has become an important object of economic research of both developed and developing countries, especially since 1990s, which was driven by increasing international competition and the globalisation of world economy.

Since the beginning of economic downturn in 2008, the international economic environment has changed; therefore the need to research the competitiveness of companies has become more actual. The results of a company's performance are one of the key aspects in the research of competitiveness as a whole. The competitiveness of companies cannot be measured the same way as national competitiveness and industrial competitiveness. Competitiveness at the company level means that companies compete for markets and it is measured by looking at market shares or profitability (Kao et al., 2008: 613). Highly profitable companies do not necessarily lead to highly competitive industries or countries, and the opposite (Blaine, 1993: 48-58). The competitiveness of companies is a concept that involves many aspects of measurement. There are many models that can be used to assess the competitiveness of companies abroad. The most widespread methods to analyse the competitiveness of foreign companies in China are the diamond model study, SWOT analysis, the Transaction Costs Analysis (TCA) and different models to assess companies' competitiveness. Bontempi and Prodi point out that: "The Chinese market is extremely complex, hard to describe, and not easily interpretable with the same theoretical and analytical tools applied to other developed/developing countries. As far as its dimensions, institutional assets, development rate, data availability and quality are concerned, China is a case by itself" (Bontempi & Prodi, 2009: 11-12).

In the 21st century there is growing interest by European companies to enter Chinese market, and there are growing number of scientific research on various aspects of company competitiveness and strategies in China. The competitiveness of Latvian companies in China has not so far been sufficiently studied. There is lack of studies how to increase the competitiveness of Latvian companies and entry opportunities in China.

The article is organised as follows: the first part outlines the theoretical concepts for assessment of a company's competitiveness in the Chinese market. The operation of Latvian companies in China is analysed in the second part.

Theoretic framework for analysing the competitiveness of foreign companies in China

The operation of foreign companies in China is investigated in the context of the competitiveness of companies and industry competitiveness. The competitiveness and strategies of a particular company or group

of companies in China are studied in the context of the companies' competitiveness (Liao & Yu, 2012; Burt et al., 2011; Carlsson et al., 2005; Gleason et al., 2002; Luo, 2001). The study of industry competitiveness means that the foreign company's operation in specific industries in China can be studied where there are numerous studies on the architectural and engineering industry (Zhao et al., 2012; Ling & Low, 2007; Ling et al., 2005), the consulting industry (Zhao et al., 2011; Ling & Gui, 2009), the real estate industry (Sun et al., 2010; Zhu et al., 2006), the chemical and pharmaceutical industry (Festel et al., 2005; Vermeer & Landsberger, 1987). The most widespread analysis methods of the competitiveness of foreign companies in China are the diamond model study, SWOT analysis, the Transaction Costs Analysis and different models for assessment of company competitiveness.

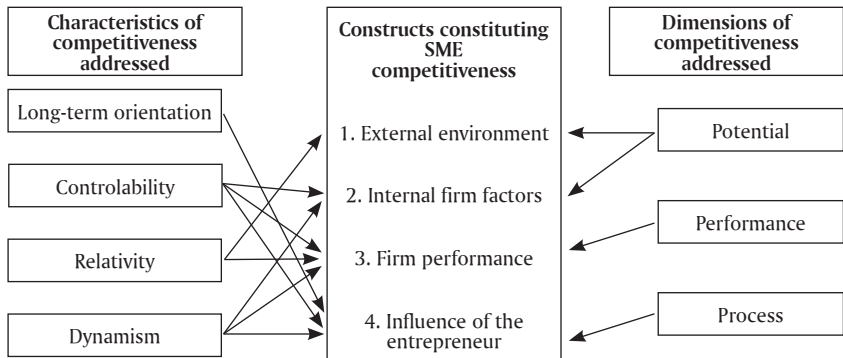
The main motivation of foreign companies to enter into the Chinese market can be looking for new markets, seeking natural resources, restructuring existing production through rationalisation and finding strategically related assets (Chen & Reger, 2006: 414). The important point in the discussion about the operation of European companies in China is the differences of market potential and cultural differences between Europe and China. Carlsson, Nordegren and Sjöholm argue: "Western companies locating in China face a business environment that differs from their home country environment. The differences increase uncertainties and are negative for economic performance" (Carlsson et al., 2005: 21). The Chinese market is attractive for foreign companies because China is a rapidly growing economy and its domestic demand is growing. China's GDP in the first decade of 21st century grew at least 8% per year and China has more than 1.3 billion potential customers (OECD, 2011: 223).

Since 1979, there are currently almost 660 000 foreign investment projects in China from over 150 countries, contributing to almost one-third of China's industrial outputs and 56 per cent of its total exports in 2010 (Chang & Park, 2012: 1). Local companies form a substantial competition in the Chinese market: local competitors challenge foreign multinationals with low costs, managerial flexibility and extensive distribution networks (Hexter & Woetzel, 2007: VIII-X). Liao and Yu have found that the performance of foreign companies in China can be improved by both knowledge transfer from local suppliers and regulatory support from local governments (Liao & Yu, 2012: 114). The transfer of local suppliers' knowledge can be encouraged by moral and pragmatic inter-partner legitimacy, but regulatory support can be advanced, if the business development of foreign company is in line with the interests of local government that might be creating a prosperous future and stimulating economic development. A company entering the Chinese market may face a number of obstacles that affect the operation of the company: government intervention, cultural differences

and management of those differences, and a highly competitive and unpredictable business environment (Zhao et al., 2012: 1-8); the Chinese government has forced foreign companies to establish joint ventures with local companies as a condition of market access (Chang & Park, 2012: 3-4). China's 12th Five-Year Strategic Plan is related to the opportunities and risks for the operation of foreign companies in China because it provides for the rebalancing of the economy by encouraging domestic consumption, developing the service sector, shifting to higher value-added manufacturing, conserving energy and cleaning up the environment (Casey & Koleski, 2011: 1). A comprehensive work plan of energy conservation and emission reduction during the Twelfth Five-Year period is scheduled.

The competitiveness of Latvian companies in China can be assessed applying one of the models of company competitiveness. A number of characteristic aspects of Latvian companies should be taken into account choosing a competitiveness model for assessing of Latvian companies' competitiveness in China. Firstly, Latvia has a great number of small and medium sized enterprises (SME). The proportion of SMEs in the total number of Latvian undertakings was 99.7% in 2008 (Central Statistical Bureau). Secondly, Latvian companies have little experience in operating in foreign markets and a relatively short experience in the internationalisation of business compared with companies from Western Europe. Latvia regained its independence in 1991 and Latvian companies have operated in free market conditions and accumulated experience operating in foreign markets only since 1990s. This indicates that the model of SME competitiveness can be useful for assessment of competitiveness of Latvian companies in foreign markets. The appropriate model in this case is the SME competitiveness model that is performed by Man, Lau and Chan and developed from the analysis of numerous studies on company competitiveness. These researchers argue that "the competitiveness studies focusing on large corporations may not be applied directly to the SME level" because "larger and smaller companies differ from each other in terms of their organizational structures, responses to the environment, managerial styles and, more importantly, the ways in which they compete with other companies" (Man et al., 2002: 128-129). Man, Lau and Chan reviewed the relevant literature on SME competitiveness and summarised three major conclusions. Firstly, models of competitiveness should take the threefold dimensions of potential, process and performance into consideration, although it is necessary to specify appropriate constructs to these dimensions for different contexts and for operationalisation. Secondly, the choices of constructs and variables should also meet the characteristics of long-term orientation, controllability, relativity and dynamism. Thirdly, the competitiveness of SMEs should comprise the four major constructs relating to the company's internal factors, external environment, influences of the entrepreneur and

the company's performance. The relationship between the constructs, the characteristics and the dimensions of competitiveness are summarised in Figure 1.



Source: Man T. W. Y. et al., 2002: 131.

Figure 1 **SME competitiveness. The relationship between the constructs, characteristics and dimensions of SME competitiveness**

Internal company factors are financial, human and technological resources, organisational structure and systems, productivity, innovation, quality, image and reputation, culture, product/service variety and flexibility, and customer service. The external environment is particularly influential in determining the competitiveness of SMEs because the lack of market power and the turbulent nature of newly emerging markets faced by many SMEs often make them more vulnerable to external influences than larger companies, such as multinational corporations. The important feature of SME operations is the influential role of the entrepreneur in affecting the performance of the company, particularly when the company remains small. Competitiveness is only a means to an end, that is, the performance of the company. The performance resulting from the competitiveness of an SME should be long-term focused than short-term oriented. These principles of constructs, as well as the context of the characteristics and dimensions, were applied to analyse 3 round table discussions that were conducted from June 2011 until March 2012. The topics of the round table discussions were the competitiveness of Latvian companies in China and the export performance of Latvian companies to East Asian countries. All round tables were noted and transcribed for data analysis. The participants of the round table discussions were experts on East Asia issues, policy makers who work with export promotion, as well as representatives from companies, which operate in Chinese market or are planning to enter into Chinese market.

Operation of Latvian companies in China

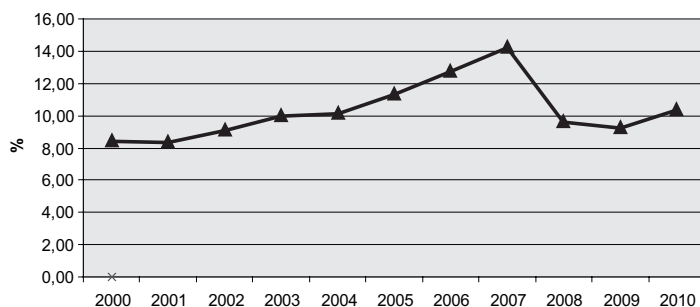
The competitiveness of Latvian companies in China and export to China are important for several reasons. Firstly, Latvia has a negative trade balance with China. In 2010, exports from Latvia to China were 8.6 times less than imports from China. The export volume was 25 million EUR in 2010 (Table 1). Exports to China accounted 0.4% of total Latvian export volume in 2010, which is the 28th largest export market for Latvian companies.

Table 1 Trade balance between the Republic of Latvia and the People's Republic of China (2004-2010)

Year	Export	Import
2004	10 644 726	88 572 605
2005	10 202 262	128 883 337
2006	19 281 413	190 443 275
2007	22 461 082	350 663 668
2008	27 406 788	364 748 182
2009	15 809 104	141 570 432
2010	25 019 350	216 102 263

Source: Data from the Central Statistical Bureau

Secondly, it is significant for Latvia to diversify its export markets. Exports of Latvian companies to European Union countries accounted for 72% of total export volume in 2010 (Economic Development of Latvia. Report. June 2011: 21). Increasing exports to the Chinese market is an opportunity to diversify the exports of Latvia.



Source: Data from the OECD

Figure 2 China real GDP growth (2000-2010)

Thirdly, Latvian companies do not use sufficiently the growth of China to boost their exports. In 2010, China became the second largest economy in

the world and its growth continued during the global economic downturn: in 2008 China's GDP grew by 9.6% and in 2009 it grew by 9.2% (OECD, 2011: 223). China's GDP in the first decade of 21st century increased at least by 8% per year (Figure 2).

According to the model of SME competitiveness suggested by Man, Lau and Chan, SME competitiveness consists of four constructs: external environment, company's internal factors, influences of the entrepreneur and the company's performance. The empirical data of the research is analysed based upon these constructs. The empirical data was obtained and summarised conducting 3 round table discussions that were attended by 23 experts on East Asia issues, policy makers who work with export promotion, as well as representatives from companies which operate in Chinese market or plan to enter into Chinese market.

External environment

An expert with more than three years work experience in China and more than three years experience in the promotion of international economic relations argues that "the number of Latvian companies operating in China is low because the registration procedures are very long and complicated in China, which makes it difficult to start a business in China" (The University of Latvia the Faculty of Economics and Management, 2012). One of the best ways for companies to promote exports to China is establishing its own office in China in order to access directly contacts in China and to provide better opportunities for trade. Experts of the round table discussions noted that China for Latvian companies is a far and obscure market, that patent issues are important in China, as well as that the business culture and business conditions differ in China. Experts from the Latvian government institutions working with the promotion of economic relations with China said that companies can use the official government visits to China to build contacts with partners in China, but the number of companies interested in this opportunity is low; Latvia has very good political relations with China, but the economic co-operation between both countries is of low intensity (The Ministry of Foreign Affairs of the Republic of Latvia, 2011).

Internal environment

The expert with more than three years working experience in China and more than three years working experience in export promotion to China finds that "the Latvian Ministry of Foreign Affairs supports Latvian companies strongly, but the problem is that companies have a lack of skills to use these opportunities" (The University of Latvia the Faculty of Economics and Management, 2012). Companies entering Chinese market have to use not only governmental support, but also other professional

assistance – banking and legal services. Experts argue that Latvian companies do not have a deep knowledge and experience about Chinese market. The establishment of one's own office in China is important for successful business in China, but Latvian companies have difficulties in establishing it, as well Latvian companies have a lack of funding for marketing upon entering the Chinese market. Entrance to China market is easier for internationally well-known companies rather than for small and internationally unknown companies, as are most of the Latvian companies.

Influence of the entrepreneur

The head of a food company with over 5 years working experience in the organisation of exports believes that that an “important motivation for a company to enter the Chinese market is the need to diversify export markets because Latvian companies have experienced in the past that a large share of a company's exports in one particular foreign market from the total company's exports may have negative effect on the long-term performance of the company” (The Investment and Development Agency of Latvia, 2011). Latvian entrepreneurs lack knowledge about China; as well they lack experience and skills for operations in the Chinese market. The preparatory work made by entrepreneurs before entering the Chinese market is insufficient therefore they lose their investments in China. The entrepreneurs can use appropriate support from the institutions of the European Union in China in order to enter into the Chinese market, but entrepreneurs do not know about these opportunities or don't use them well enough.

Company performance

The export volume of Latvian companies to China was 25 million EUR in 2010, which was one of the lowest among Member States of the European Union in 2010. The competitiveness of Latvian companies in China is insufficient because exports to China constitute 0.4% of total Latvian exports and more than half of the exports were the export of raw materials (Table 2).

The expert who works in the promotion of Latvian exports to China gave an example that in “appealing to the food companies to bring their goods in China, these companies did not have the capability to register their products in China because the main obstacle is that it is very difficult to find a partner in China who really wants to distribute Latvian goods in China” (The University of Latvia the Faculty of Economics and Management, 2012). The representatives from government institutions underline the fact that prospective sectors for Latvian exports to China are food, pharmaceutical goods, services (tourism, IT products).

Table 2 Latvian export to China by commodity groups in 2010 (EUR)

Commodity groups	Volume (EUR)	Share of total export to China (%)
Metals and metal products	9 687 086	38,72
Mineral products (peat)	3 554 804	14,21
Vegetable products	3 159 030	12,63
Machinery and mechanical appliances, electrical equipment	1 881 223	7,52
Various manufactured goods	1 444 276	5,77
Chemical industry	1 263 867	5,05
Wood and wood products	1 093 963	4,37
Plastic products, rubber and rubber products	951 317	3,80
Vehicles	857 414	3,43
Optical instruments, clocks, music products	523 316	2,09
Textiles and textile goods	375 290	1,50
Others	227 764	0,91
Total	25 019 350	100,00

Source: Data from the Central Statistical Bureau

The choice of these prospective sectors is not based on research. The expert with more than 10 years working experience in the promotion of co-operation between Latvia and China argues that Chinese language skills do not guarantee success in China, but it can facilitate entry into the Chinese market.

Conclusions

The competitiveness of Latvian companies in China has not so far been sufficiently studied; as well there is a lack of studies as to how to increase the competitiveness of Latvian companies and entry opportunities in China. The structure of Latvia's export shows that Latvian companies have low volume of exports to fast growing markets, the most promising of which is the rapidly and steadily growing Chinese market. China's GDP in the first decade of the 21st century increased at least by 8% per year providing opportunities for Latvian exports to China, but these opportunities are insufficiently used – Latvian exports to China were 25 million EUR in 2010. The competitiveness of Latvian companies in China is insufficient because the annual exports of Latvian companies to China in the period from 2004 to 2010 was at least 8 times less than import from China: exports to China accounted for 0.4% of total Latvian export volume in 2010, as well more than half of the exports were exports of raw materials.

Three round table discussions on Latvian exports and the competitiveness of Latvian companies in China were analysed in this article. The round table discussions were assessed applying the model of SME competitiveness suggested by Man, Lau and Chan. According to the model the competitiveness of companies is characterised by the external environment, internal company factors, company performance and the influence of the entrepreneur. Latvian companies have difficulties entering the Chinese market and they are insufficiently active in using the existing export support opportunities to enter the Chinese market. The main obstacle for Latvian companies in entering the Chinese market is an inability to register their company and products in China, as well as a lack of resources to provide their own representative in China. To improve the competitiveness of Latvian companies in China, the companies have to enhance knowledge, skills and capabilities for operations in the Chinese market. Companies have to invest more resources in activities, which promote their entry to the Chinese market.

The limitations of this research are related to the fact that the empirical material consists of round table discussions, but there was no other quantitative or qualitative data gained in an empirical way. A wider range of the quantitative or qualitative methods should be used in studies in the future to analyse the competitiveness of Latvian companies in China.

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ENGLISH FOR BANKING: AN INSTRUMENT FOR INTERNATIONAL COMMUNICATION

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Abstract

As the new millennium in the banking sector is characterised by an increased diversification of the consumer market, global communications and the collapse of the traditional professional boundaries, the English language has become a prime instrument of inter-bank communication. This interdisciplinary research paper has a twofold goal: to characterise banking discourse and to analyse selected linguistic resources that govern transactional communication in a banking setting. The analysis of the language used by the banking speech community confirms that inter-bank communication is based on both specialist area knowledge and on specialist language competence, which serve as contributing factors to achieve direct and clear-cut inter-bank communicative goals. It has been concluded that the banking sector's employees are expected to possess a high-level specialist language competence to produce documents for distribution. Thus, the analysis of the banking discourse and the study of metaphor, the linguistic resource used in banking discourse, may help to determine some areas of the language employed by the banking speech community to establish and maintain international level communication.

Key words: banking discourse, metaphor, inter-bank communication, competence.

Introduction

Non-native language users working in a banking setting face a task not only to meet their foreign counterparts' routine communication needs, but they are also expected to create documents and to respond to the customer needs in a written mode. Therefore, the present article attempts to study selected aspects of the English language used for instrumental purposes to establish and maintain communication across borders. It aims at exploring both the banking discourse and the use of the English language when it is applied for communicative purposes in the discourse under analysis. Considering the organisational requirements set for the article, the analysis focuses on the study of the banking discourse and on the examination of metaphor application in the discourse being investigated.

To reach the study goal, the following research questions were addressed:

- What are the features that identify banking discourse?
- What is the role of metaphor in banking discourse?

Materials and Methods

The study reported in this article used a qualitative research perspective. A two-fold principle was followed to design the research methodology: a descriptive research approach and discourse analysis. The descriptive research approach was used to describe the intrinsic nature of the banking discourse. To analyse selected instances of language application in the banking discourse, the conceptual metaphor theory was considered.

On a linguistic level, the article considered the corpus of texts being published in three types of professional journals, such as *Financial Stability Review*, *Monetary Review* and *Europe's World*, which serve as a means of inter-bank information circulation. In inter-bank information circulation, professional journals are used as one of the informative sources that are produced with a purpose to store, to file and to disseminate banking and financial-data related information. They are created to serve a specified communicative purpose, i.e. to inform the target readership about the money and/or fiscal situation of countries. Thus, the selected corpus intended for analysis constituted 806 pages, each page consisting of 500 words on average,

To characterise the banking discourse, the study took into account contributions of some of the seminal theories on language in use (e.g. Halliday 1985: 318-345; Brown and Yule 1983: 1-45). Following the conclusions drawn by the theoretical writings, the study examined selected linguistic resources that characterise the nature of written English for banking, which is considered to be a functional variety of the English language applied for specific purposes. To arrive at a complete understanding of the use of the English language in the banking discourse, the article focused on the following theoretical implications that underlie the theoretical basis for this inquiry:

- language use is a part of social (interactional) and information conveying (transactional) processes (Brown and Yule 1983: 6),
- language use as a linguistic expression is determined by both its situational context and its linguistic context (Halliday 1985: 271-314), and
- context of situation rather than linguistic units themselves determines the intended meaning (Halliday 1985: 271-314).

To consider the specifics of specialist language applied in banking context, the study put a synchronic perspective on the notion of discourse in order to identify selected features that identify the banking discourse.

It can be argued that the banking discourse is usually represented by a written mode of manifestation. It is marked by a narrative structure; it is governed by in-house institutional rules, it is a situation-related and style-specific means of transaction, where the written English for banking (EB) displays clear-cut internal text-linguistic features and makes use of selected linguistic resources that govern written mode of communication.

In addition, the selected theoretical contributions (e.g. Lakoff and Johnson 1980: 14-56; Pinker 2007: 235-279) form a theoretical basis of the article for understanding the role of metaphor in the banking context. Metaphor being a principal cognitive tool of organising a human being's experience gained and knowledge acquired systematically conflates different experiential domains. Metaphor is primarily considered to function as a tool of thought which is realized linguistically.

The study of authentic banking discourse demonstrates that metaphor is primarily perceived as a conceptual realisation of meaning, and, subsequently, it is employed for a purpose of linguistic manifestation of meaning in a situational context. Therefore, the role of metaphor in the discourse under analysis is examined considering the contributions of the conceptual metaphor theory. As language is a socially determined and conditioned process (Pinker 2007: 245-264), the language use is inseparable from the social contexts of its application.

In light of the above, it can be presupposed that banking area related communication abounds in metaphors. The discourse created by the banking speech community addresses not only professionals working for this area, but also the general public, which is interested in obtaining authentically trustworthy information as regards monetary and/or fiscal issues. From this perspective, the article looks at metaphor being a linguistic resource that functions as a linguistic instrument to deal with socially conditioned processes.

Results and Discussion

Banking Discourse

Written transactional communication represents the correlation of statements made at a certain time and in a certain place by a writer to a reader in the discourse that establishes the context. The purpose of writing is to cause an effect on the audience: opinions are expected to be recognized, assertions- to be agreed with.

In the context of the present article, the study focuses on examining both the notions *institutional discourse* and *banking discourse* and the features characterising the notions. From a synchronic perspective, many discourse analysts offer their understanding of the notion *discourse*, for example,

'discourse refers to the types of language in specific contexts' (Carter 1993: 22). As regards the notion *institutional discourse*, we refer to the conclusions drawn by Sarangi et al. (1996: 23-27), Foucault (1979: 45-46), and Habermas (1989: 67-69) who assert that the institutional discourse represents the type of the language that adheres to the following principles established to reveal institutional performance:

- habitualisation and depersonalisation,
- the economic rationality of language, and
- neutrality, fixed norms, rules and procedures.

However, there is a recent tendency that banking discourse is seen as a type of communication, which as a social practice is a subject to change depending on the place, time, specific situation and the context of use (Agar 1985: 147).

Considering the above-mentioned statements, it can be noted that banking discourse is based on fixed rules and in-house regulations. It is a linguistic behaviour observed by institutional and/or professional speech communities. The banking discourse appears to be the situation – setting – style-specific transaction. The conventions followed in written transactions (statements, reports, contracts, business correspondence, articles) exhibit identifiable linguistic and pragmatic features that distinguish the discourse being analysed. Taking into account Drew and Heritage's (1992) theoretical contributions, it should be stressed that the banking discourse is 'specialised by its situation, [...] rests on institutional tasks and functions, and it bears distinctive linguistic and stylistic features' (Drew and Heritage 1992: 6). Redish (1983) admits that the banking discourse can be characterised as the linguistic representation of specialist-related communication that exhibits specified field-related features, such as:

- use of nouns, e.g., a third party account, a ten percent guideline, public offering price, thin market liquidity,
- preference for passive constructions, and
- nominalisation, i. e., verbs transformed into nouns, e. g., a money purchase plan (instead of 'a plan to purchase money'), investment products (instead of 'to invest products'), margin substitution (instead of 'to substitute margins') (Redish 1983: 16-18).

According to Hudson (1978) professional jargon, specialist vocabulary, including abbreviations, extensive use of selected linguistic expressive means, such as lexical and grammatical metaphors can be considered as other features of the professional discourse, (Hudson 1978: 76).

In brief, the above discussion of the banking discourse has attempted to identify that the core features specifying this type of communication are:

- it results from in-house institutional rules and regulations, thus being situation – setting – and relevant style-specific language,

- it rests heavily on written mode of communication, being mostly marked by a narrative structure of the language, and
- it employs specific linguistic resources that secure development and realisation of specialist area transaction.

As the present investigation is interested in exploring the role of English in the banking discourse, it can be asserted that English used as an instrument of communication in the area of banking bears the following characteristics:

- it is a definite task related communication that follows in-house rules of transaction being accepted by the banking speech community,
- it is a banking business targeted language that serves as a linguistic instrument to conduct this type of business,
- it represents specific performance, which is expressed by the context-bound linguistic resources that are specifically selected to display the purpose of doing banking business,
- it is created via making specific linguistic choices with the purpose to succeed in a meaningful and context-targeted communication,
- it represents a particular lexical choice and exhibits the properties of specific vocabulary belonging to a particular business area, and
- it is a goal-oriented, time-consuming, context-sensitive, cost-effective, transparency related type of communication.

With the current and fast changing nature of the global business environment and with the focus on a multi-skills oriented range of language application, English for banking starts to be governed by the language users' linguistic and pragmatic competences to communicate across national boundaries. Due to a further expansion of domestic and foreign joint ventures, because of new acquisitions and mergers of banks and financial institutions and businesses in general, English from a national language has changed into a corporate language, which serves international language purposes. Pilbeam (2001), for instance, has observed that the new millennium reports on new developments of English as an international means of communication irrespective of the area of its application. A new element in English used for professional purposes has emerged, that is, 'the need for cross-cultural awareness to communicate within the framework of different values and attitudes that affect behaviour' (Pilbeam 2001: 16).

It should be emphasised that the specialist-area related language users are expected to exhibit the linguistic competence, interpersonal and intercultural skills, electronic literacy, and specific discourse awareness to communicate information across borders. Thus, apart from professionalism to be displayed in day-to-day banking and finance-related areas, today's English for banking rests on an individual's:

- linguistic competence being demonstrated in specified social discourse,

- appropriate understanding of the basic principles underlying intercultural written communication and aptitude for defining the national and international cultural values, and
- awareness and sensitivity of how culture forms an integral part of communication that occurs among interactants with different national and linguistic backgrounds.

To summarise, English for banking concerns itself with explaining, presenting, analysing, identifying monetary matters-bound processes with the goal of communicating them with professionals representing this area both domestically and abroad. In addition, the use of English for banking being a part of information conveying (transactional) processes is determined by its situational and linguistic contexts. It performs as an instrument to present micro- and macro-level monetary and financial issues being evident in a specified professional setting be it in Latvia's or in any other country's context. Assuming that in the majority of cases the competence in EB is manifested by professionals who apply it primarily for instrumental purposes, the present article tends to assert that the essence of EB lies in matching the specialist language competence to the needs of the target language users. As the scientific, technological, political and economic progress of the 21st century has given a rise to very rapid expansion of the demand for the English language used in professional areas; it has become one of the basic means of international communication in the domain of banking as well.

Thus, the English language used by the banking speech community can be distinguished as a goal-oriented functional variety of specialist language, which stands out as the language extensively exploiting the linguistic resources to reveal:

- specific context meaning, e.g., bullish market, bearish market, blue chip shares, index-linked bonds, seed capital, Bill of Exchange, Letter of Credit, and
- specific monetary and financial matters related information, such as financial trends, financial indicators, bank analysis and auditing, foreign exchange and money markets, e.g., Gross domestic product, current account balance, industrial output, average monthly salary, bank prime rate, sound money, legal tender, fiduciary issue, promissory note.

The use of abbreviations is another factor that demonstrates how the language is employed by the banking speech community, e.g., BIN (Bank Identification Number), OTC (Over the Counter), AIBD (Association of International Bond Dealers), and VRM (Variable Rate Mortgage).

Therefore, this study attempts to state that English for banking bears complex linguistic nature that is displayed via professional information-bound meanings in the course of communication. Due to the restricted

volume of this article, the further discussion will shed only some light on the use of one of the linguistic means of expressing meaning (i.e. lexical metaphor) in the banking discourse.

Lexical metaphor-linguistic device of expressing meaning

It is generally known that metaphor as a linguistic stylistic device is considered to be one of the trickiest phenomena for interpretation. Hence, is the necessity to understand the essence of metaphor being employed extensively in the area under study. In fact, the use of metaphor plays a considerably significant role, especially if it refers to an appropriate understanding and interpretation of the linguistic instrument in the area that presents money-matters specified issues.

While many specialists express their warnings concerning the proper usage of metaphors and the possible traps connected with their application recommending reducing uncontrollable application of metaphors, it is not the question of choice for people working in the area of banking. They have to use metaphors, because, when working in a limited span of time, they have to transfer and immediately interpret huge amount of specialist area related information, such as, for example, economic forecasts, financial indicators, various indexes and stock market movements and political trends.

Thus, great amount of information flow is presented with the help of metaphors, for example:

This bank note has to be taken at its face value (i.e. the bank note has to be accepted without any suspicion or enquiry; *Financial Stability Review* 1: 45);

Shares are sold below their face value (i.e. the shares that have a lower value than expected; *ibidem*: 49);

Assets of the bank are entered on the right side of the balance sheet (i.e. the valuables the bank owns that can be sold for money in case of insolvency; *Monetary Review* 5: 31);

Latvia's commercial banks have to hold the purse-strings (i.e. the commercial banks have to control their expenditure; *Europe's World* 5: 23); or

Banks often issue blank/open cheques (i.e. banks issue a sanction to act or spend without limit; *ibidem*: 67).

The above offered instances of metaphor use in banking context demonstrate that the use of metaphor in a professional context presents certain constraints of a linguistic and cognitive nature where it is in regard to the interpretation and preciseness of professional level-bound data. It should be noted that wrong, insufficient interpretation or misuse of metaphors or metaphorical expressions may lead not only to severe

distortion of crucially important information, but also to misinterpretation of the key terms and figures that may cause utterly wrong actions to be taken or inappropriate decisions to be made.

The below-presented statements exemplify the complex nature of metaphor use in the banking discourse when the specialist competence is required to understand the metaphors in the context of their application, for example:

The European Central Bank strongly insisted that the Bank of Latvia is to follow strict rules of pawnbroker economics (i.e. the Bank of Latvia has to have monetary policy that seeks to control inflation, growth rates etc. by varying bank interest rates; *Financial Stability Review* 1: 89);

The commemoration coins issued by the Bank of Latvia are at a premium on Latvia Stock Exchange and they are in a very high demand amongst international numismatists (i.e. the commemoration coins are highly valued; *Monetary Review* 1: 46);

The Bank of Latvia does not capitalize on selling Treasury Bills to the government (i.e. the Bank of Latvia does not make a profit on selling short-term promissory notes; *ibidem*: 103);

The Treasury of Latvia issues Treasury Bonds (i.e. the structural unit of the Ministry of Finance in Latvia issues long-term promissory notes; *ibidem*: 31); or

The bank "Parex" used to be quite influential in Latvia banking and finance system; now this banking tycoon is decrowned (i.e. the bank "Parex" has lost its financial influence; *Monetary Review* 5: 67).

Taking into account the instances provided, it may be presupposed that a successful application and valid interpretation of metaphors and metaphorical expressions in the area of banking imply a great responsibility; this requires maximum background knowledge and the linguistic competence of the language users.

To analyse the *cognitive function* metaphor fulfils in context, Lakoff and Johnson (1980: 14-33) distinguish two basic types of conceptual metaphor:

- *ontological* metaphors that communicate activities, emotions, ideas related to entities and substances, for example:

Restoring balance to the world economy involves continuation of building-up the domestic demand expansion (*Monetary Review* 1:17);

The Bank of Latvia is the house of Lats issue (*Monetary Review* 5: 12);

The advances that laid the foundations for modern banking will be seriously verified according to the demands set (*Financial Stability Review* 1: 46);

The neutrality of French banks was not without foundation (*Financial Stability Review* 4: 21);

The Canadian dollar was the best-performing G10 currency in 2008 (*Europe's World* 5: 57);

- the *orientational* metaphors that communicate the basic spatial movements, such as the starting and/or the end points, for example:

The stock is up 19% in the past year (*Europe's World* 5: 11);

We may well know in the future the dollar will drop sharply (ibidem: 22);

A gradual slowing down of economic growth was observed at the end of 2008 (*Monetary Review* 5: 95);

Asset price bubbles also tend to contribute to imbalances of creating a false perception of wealth in the country (*Financial Stability Review* 1: 34); or

Net interest income indicates write-downs on financial assets and positions (ibidem: 67).

Lakoff and Johnson (1980) argue that ontological metaphors are based on 'human experiences with physical objects [...] and bodies' (Lakoff and Johnson 1980: 25-27).

Ontological metaphors can benefit for 'referring, quantifying, identifying aspects, identifying causes, setting goals and motivating actions' (ibidem).

The study of the selected corpus identifies that ontological metaphor is commonly applied in the banking discourse if monetary and financial developments are presented and analysed. The examples below illustrate that ontological metaphors are used to characterise how the developmental processes in the banking system are handled. If one builds or builds-up something, he deliberately manages and/or promotes the developmental processes, thus metaphor is employed to characterise how fundamental operational procedures and prime functions of the system are fulfilled, for example:

Average costs continued to build on a downward trend in 2010 of 2.7% (*Monetary Review* 1: 56);

The economic stimuli and inventory build-up spurred recovery in the US, yet the growth slowed down somewhat in the themed year (*Financial Stability Review* 1: 79); or

Capital-flows have exploded leading to large build-ups in cross-border claims (*Europe's World*, 5: 123).

The examples shown can be evidence that the verb and noun forms of the word '*build*' are used extensively. In addition, such nouns referring to the source domain of building and construction as *ceiling*, *house*, *foundation*, *door*, *key* are employed as well. For example, the noun '*ceiling*' is used to

imply the upper limits of revenues and expenditure that are not to be exceeded. In the corpus analysed, the noun *ceiling* is used commonly in the word combinations, such word combinations as 'price ceiling', 'an income tax ceiling of', 'to put a ceiling on the income/outgoings' in a huge number of instances, for example:

The Ministry of Finance plans to impose an income tax ceiling of 26% in Latvia, the changes into income tax law were in force from 1 January 2010 (*Monetary Review* 1: 28); or

Administered energy resource prices put a ceiling on both the revenues and expenditure of the country (*Europe's World* 5: 2).

The noun 'house' is used in the banking discourse to characterise the general financial procedures the financial institutions fulfil when they perform as organisations that emit legal tenders or securities, for example:

The house rules are the compliance rules that banks impose on the registered representatives and their employees (*Financial Stability Review* 1: 35); or

Housing authority bonds function as revenue bonds which represent special features in different countries (*Monetary Review* 5: 20).

The use of the metaphoric expressions such as 'to open doors', 'to open gateways' is associated with representing new opportunities that the banking sector is expected to take. On the other hand, the metaphoric expressions 'to slam the door' and 'to close the door' are employed to refer to the activities or financial behaviour that are no longer possible to exist or the activities that are may cease to function.

The discussion so far has evidenced that the metaphoric expressions that fulfil the function of ontological metaphors are employed by the banking speech community to identify the concept of motion in the discourse under analysis. This brings us to the assumption that metaphorical concepts develop the information recipients' physical, social or cultural experience, but these accounts 'are suggestive and plausible, not definitive' (Lakoff and Johnson, 1980: 16).

By and large, the analysis of the use of ontological metaphors in the banking discourse specifies that they are employed to communicate the monetary and fiscal developments and to reinforce the common developmental tendencies either at the domestic or international levels.

As regards orientational metaphors, they are used in the banking discourse to reflect the spatial relationships between the notions. They communicate a broad variety of relationships in the banking discourse, such as above-below, in front-behind, close-distant, left-right, inside-outside, south-west, centre-margin spatial relationships.

In the context of this study, it can be stated that the concepts of destination and path relate to the concept of goals that are pursued by the banking speech community, for example:

That is one of the structural changes indispensable for sustainable development, which indicates that the path of overcoming the crisis taken by the Latvian government and supported by the monetary policy of the central bank has been chosen correctly (*Monetary Review* 5: 37);

Gradualism should be the way forward to resolve inefficiencies in factors contributing to the prevailing problem, i.e. exchange rates, capital flows, fiscal slippages (*Financial Stability Review* 4: 90); or Key policy issues were advanced [...] and the establishment of a governance framework is laying down the way in which the Euro-system will be able to participate in the future development and operation of T2S (*Europe's World* 5: 78).

Taking into account the scope of orientational metaphors being discussed, they reflect on the motion towards attaining the goal set. Thus, the mobility concept bears a nature of positiveness; immobility represents a negative concept, and anything that can be an obstacle in the path of mobility is perceived negatively. Consequently, the mobility concept is broadly represented in the banking discourse and the concepts of mobility may take a broad variety of metaphorical expression in the discourse.

Besides, orientational metaphors communicate the intrinsic nature of the banking performance, overall functions, services and products offered by the banking community, for example:

This is particularly true for global banking flows which swung around from USD 451 billion net lending to Ems to a net withdrawal of USD 44 billion between 2007 and 2009- a turnaround of nearly half a trillion dollars (*Financial Stability Review* 4: 30);

Cutting the budget deficit took place, to a large extent, at the expense of higher tax revenues (*Monetary Review* 5: 70); or

A gradual slowing down of economic growth was observed at the end of 2010 (*Europe's World* 5: 97).

Taking into account the instances indicated, it can be assumed that orientational metaphor in the banking discourse facilitates the perception of how the movement trends of the banking sector's performance occurs. In the orientational terms, the upward-downward movement trends are the most often applied image-schemas in either the banking or in the economic discourse (Deignan 1997: 1-18).

The instances of orientational metaphor use can be observed in the language applied to describe the financial trends and indicators. According

to Horner et al. (1996 45-46), financial trends and indicators can be conceptually grouped to characterise:

- an unplanned and sudden increase, e.g. prices, costs, estimates can *jump, soar, boost, hike, accelerate*,
- a gradual and steady improvement, e.g. financial indicators can *pick up, climb, rise, grow, go up*,
- a gradual downward trend, e.g. costs can weaken, slide, reduce, drop, fall, be down, and
- an unplanned and sudden decrease, e.g. financial estimates can *plummet, slump, slash*.

As a result, the study results evidence that the verticality (up-down) concept is metaphorically represented when the following contextual areas are analysed in the banking discourse:

- movements and trends of financial indicators, for example:
Loan dynamics declined across euro countries, possibly reflecting uneven economic recoveries (*Monetary Review* 1: 30);
- the management of money resources by countries, organizations or particular institutions, such as high finances (i.e. banks, governments and corporate organizations), for example:
Asset price bubbles also tend to contribute to imbalances by creating a false perception of wealth in the country (*Europe's World* 5: 160);
- economic representation of sustainability, calculations of profitability or unprofitability of particular finance-related institutions, for example:

The issues tackled covered a vast range of problems crucial to Latvian economy: the sustainability of the economic growth, potential effects of the euro changeover on economic growth, the price calculating mechanisms, and the real time forecasting of Latvia's medium-term and long-term economic growth trends (*Monetary Review* 1: 29);

- rates of growth, decrease, interest rates, inflation and the unemployment rates, for example:

Adjustments in real exchange rates would be most effectively achieved through accelerated movements in nominal exchange rates, allowing relative wages and prices adjust quickly and symmetrically to restore external balance (*Financial Stability Review* 5: 69).

The central-peripheral (in-out) image to frame the banking sector's operations is represented in the banking areas of:

- economic analysis and forecasting, for example:
National Banks do not have to deal with above-the-line income statement (ibidem: 47);
Four expert roundtables dealt with the role of financial sector in monetary transmission and its quality (*Europe's World* 5: 67);

- the balance of payments, for example:
When a country exports more than imports, it has trade surplus, when the opposite is the case, it has trade deficit, the amount of this surplus or deficit is the trade gap (ibidem: 89);
- economic output (i.e. the value of goods and services produced in a country), gross national and gross domestic product, foreign exchange operations, for example:
Foreign reserves include the assets reported under special drawing rights and convertible foreign currencies as well as derivative financial instruments and spot exchange rate contracts (*Monetary Review* 1: 97).

To summarise, the examples being offered support our presupposition that the banking discourse employs orientational metaphors to mark banking policy implementation procedures. It has been observed that the monetary policy related functions are revealed through the verticality (up-down) and the central-peripheral (in-out) image schemas, and orientational metaphors have been used to display the nature of:

- financial stability implementation policies,
- internal monetary implementation policies,
- monetary decision making policies, and
- transparent and sound payment systems and their operational mechanisms.

Conclusions

Taking into account the above-discussion, it should be stressed that the English language can be considered as a powerful instrument of international communication. Being widely accepted as an international means of transaction in the area of banking and reacting to the developments of the present global financial markets worldwide, the banking speech community requires meeting not only the demands set for establishing and maintaining communication across boundaries, but also the demonstration of the language users' linguistic and pragmatic competences.

Referring to the nature of globalisation observed in the banking discourse and taking into account the present tendencies evident in the banking area, it must be emphasised that the new tendencies evident in the international communication focus on the language users' awareness of culture-specific issues that are significant prerequisites to arrive at appropriate understanding and interpretation of the language used in the banking domain related areas.

Thus, it is concluded that the banking discourse can be identified by the following features:

- it is based on fixed rules and in-house regulations; it exhibits the linguistic behaviour the banking speech community complies with;
- it is a situation-, setting- and style-specific written mode of communication that is applied for instrumental purposes and is marked by a narrative structure;
- it is used for making theoretical/analytical statements of general business nature (e.g., analysis of an economic situation) and for revealing a specific banking and/or finance-related facts or data (e.g., forecasts of currency exchange rates);
- it employs selected linguistic resources to present monetary and/or fiscal matters related information in a persuasive way to ensure trustability and truthfulness to the data revealed; and
- it rests on the banking specialists' competences to establish transactional communication at an international level with the target language users, the information recipients, who may have different linguistic and cultural backgrounds.

In the banking discourse, metaphor functions as a linguistic instrument that attempts to explain the unknown in terms of the known.

As regards the role of metaphor in the banking discourse, it is employed in the below-mentioned areas, where:

- general level banking area activities are represented by the use of ontological metaphors,
- monetary and financial developments area peculiarities are represented by the use of orientational metaphors, and
- monetary policy operations area peculiarities are represented by the use of orientational metaphors.

Thus, the above discussion shows that the use of metaphor is universal and is not restricted to one specific area of application: human thoughts are metaphorical in nature and the concepts which people construct are based on their thoughts. Finally, the language people use *is* the language of their thought. The language users' word stock reflects the kinds of messages the writers deal with. Since language evokes meanings which are used in situational contexts, language affects the language users' thought, or, it can be stated that language *is* thought. Thus, it can be concluded that due to the use of metaphor in communication language users are able to perceive the ideas and messages and deliver them to the information recipients in a meaningful way. Metaphor is a conceptual realisation of meaning in situational context.

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THE 1936 DEVALUATION OF THE LAT AND ITS EFFECT ON LATVIAN FOREIGN TRADE

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Abstract

The effects of devaluation can be complex and far-reaching. And depending on the nature of a country's trading structure, the benefits may never materialise at all. It is clear that the Latvian 1936 devaluation had a differentiated effect on Latvia's foreign trade with the Scandinavian countries and the rest of the world. The favourable world economic situation in 1937 (high timber prices) contributed to a substantial rise in total exports after devaluation. However, the *J*-curve phenomenon could only be observed in trade with Sweden and Denmark with a time-lag of some two years. The general effect of the devaluation on Latvia's foreign trade was dampened through the total control by the authoritarian regime over Latvian foreign trade, strict internal price controls, and the clearing agreements with several states, including Sweden.

Keywords: Latvia, Lats, 1936 devaluation, *J*-curve, foreign trade

1. Introduction

The international economy in the interwar period was dominated by developments in the UK, Germany, France and the USA. The Great Depression of the 1930s was the most serious economic event in this period and its effects were felt by all countries integrated into the world economy. Although today it is generally agreed that there was no single cause for the Great Depression, it is clear that monetary factors – specifically the role of the international gold exchange standard – were of particular significance.¹ This paper examines a small, open economy on the periphery of Europe in this turbulent time. The paper will examine the history of the introduction of the lat and its subsequent devaluation in 1936. The paper also examines how Latvia's trade balance reacted to the devaluation of the lat in 1936 and whether or not the *J*-curve effect could be observed.

¹ See for example, the classic study by Barry Eichengreen – “Golden Fetters”

2. Theoretical aspects

In the literature there three approaches to the relationship between devaluation and trade: the elasticities approach, the absorption approach and the monetary approach.

Under the absorption approach,² it is assumed that there is the existence of the Keynesian short-run world and the nominal and real effects of devaluation can be stated as follows. Devaluation reduces the relative prices of domestic goods in domestic currency and produces two effects. Firstly, there is a substitution effect that causes a shift in the composition from foreign goods towards domestic goods; that is, the exchange rate change causes an expenditure-substituting effect, and with the usual Keynesian assumption of unemployment, domestic production increases. Secondly, there is an income effect, which would increase absorption, and then reduce the trade balance. The income effect is related to both the increase in domestic output (income), which acts through the “marginal propensity to absorb” (consume) and “marginal propensity to invest,” and the change in the terms of trade. In general, this approach argues that a country’s devaluation causes deterioration in its terms of trade, and thus deterioration in its national income. The presumption is that devaluation will result in a decrease in the price of exports measured in foreign currency.

What makes the monetary approach different from the elasticities and absorption approaches is that the role of the exchange rate is reduced to its temporary effect on the money supply. The reason being, that the monetary approach assumes “a change in the exchange rate will not systematically alter relative prices of domestic and foreign goods and it will have only a transitory effect on the balance of payments”.³

The elasticities approach is based upon the model, commonly known as the *BRM* (Bickerdike, 1920; Robinson, 1947; Metzler, 1948) *model*, which has been recognized in the literature as providing a sufficient condition (the *BRM condition*) for a trade balance improvement when exchange rates devalue. The hypothesis that devaluation can improve the trade balance has been also based upon a particular solution of the *BRM condition*, known as the *Marshall-Lerner condition* (Marshall, 1923; Lerner, 1944). This condition states that for a positive effect of devaluation on the trade balance, and implicitly for a stable exchange market, the absolute values of the sum of the demand elasticities for exports and imports must exceed unity. Accordingly, if the *Marshall-Lerner condition* holds, there is excess supply for

² The following discussion is based upon Straughn, R. (2003), p. 70-75

³ Whitman, M. V. (1975), p. 494.

foreign exchange when the exchange rate is above the equilibrium level and excess demand when it is below.

In a recent review of the approaches Rincon and Nelson (2001) noted that the elasticities approach incorporating the BRM model and the Marshall-Lerner conditions have “become the underlying framework for those who support devaluation as a means to stabilize the foreign exchange market and/or to improve the trade balance”.⁴ They further note that the empirical evidence in support of the elasticities approach have been inconsistent and at least two theoretical explanations have been proposed for the mixed results of the approach – the *J*-curve effect and, more recently, the *S*-curve. The main explanation for the *J*-curve has been that, while exchange rates adjust instantaneously, there is lag in the time consumers and producers take to adjust to changes in relative prices (Junz and Rhomberg, 1973; Magee, 1973; Meade, 1988). In terms of elasticities, domestically, there is large export supply elasticity and low short-run import demand elasticity. Moreover, the most recent literature on similar settings, which has used dynamic-general equilibrium models, has found that the trade balance is negatively correlated with current and future movements in the terms of trade (which are measured by the real exchange rate), but positively correlated with past movements (Backus et al., 1994). This has been called the *S*-curve because of the asymmetric shape of the cross-correlation function for the trade balance and the real exchange rate.

In this paper I will concentrate on elasticities approach and the resultant *J*-curve effect in examining the effects of the 1936 devaluation on foreign trade in Latvia.

3. Introduction of the Lat

One of the main problems for most European countries after WWI was to bring under control their internal finances – to control inflation and the often violent fluctuations in the value of their currencies. On 18 November 1918 when Latvia declared independence there was no Latvian currency. At this time a number of currencies (or currency equivalents) were in use, including Tsarist roubles, Ost-roubles, Duma roubles, Kerensky roubles and promissory notes issued by various Latvian city governments, as well as Reich marks, Polish marks, and others. On 11 December 1918 the Latvian provisional government promulgated a decree regarding the issue of Latvian independence bonds and fixing the exchange rates for the three main currencies in use: 1 Tsarist rouble = 0.8 Ost-roubles = 1.25 Duma

⁴ Rincon, H and Nelson, G.C. (2001), p. 3

roubles.⁵ On 27 March 1919, Latvia proclaimed the issue of Latvian roubles and fixed the exchange rate at 1 Latvian rouble = 1 Ost-rouble = 2 Reich marks = 1.5 Tsarist roubles.⁶ Latvian roubles were issued by the Treasury as there was no central bank at the time. The new Bolshevik government in Russia continued to issue Tsarist roubles and Duma roubles at a rapid rate, substantial amounts of which also found their way into Latvia. This raised the possibility of an externally generated hyperinflation through the resulting increase in the money supply. On 16 February 1919, the Latvian government restricted the amount of Tsarist roubles a person could bring across the border and on 18 March 1920 decreed that the Latvian rouble was the sole legal tender in Latvia.⁷ To hasten the withdrawal of Tsarist roubles from circulation, the Government decreed on 30 March 1920, that holders of Tsarist roubles must exchange their holdings by 20 April at the fixed exchange rate of 0.5 Latvian roubles = 1 Tsarist rouble.⁸ Nevertheless, inflation continued, as the Government, lacking other sources of revenue continued to emit Latvian roubles in ever increasing amounts to cover the expenses of government, particularly the costs associated with pursuing the War of Independence. By March 1921 when the Constitutional Assembly gave its last authorisation for the Government to emit Latvian roubles, some 2520 million Latvian roubles had been emitted.⁹ Effective measures to combat inflation and stabilise the currency began to be taken with the appointment of Ringolds Kalnings as Minister for Finance on 21 March 1921.

Soon after the Latvian rouble was declared as sole legal tender, the Government established a State Gold Fund to provide backing for the Treasury notes. By 25 April 1921 the value of the State Gold Fund was nearly 100% of the value Treasury banknotes in circulation. In May 1921, the Government introduced the “accounting lat” or “ideal gold frank” as the unit for the assessment of all taxes and the concluding of contracts. As this unit was tied to a currency fixed in terms of gold (e.g. gold francs), all taxes were in effect given in terms of hard currency. This enabled Latvia, without foreign aid, to halt inflation and in 1922 to introduce its own national currency, the Lat. The rate of exchange was fixed at 50 Latvian roubles = 1 gold-convertible lat. The value of the lat was fixed to the Swiss gold frank or 0.2903226 pure gold to one lat. Apart from some minor

⁵ Aizilnieks (1968), p. 112

⁶ *Ibid.* p.114

⁷ *Ibid.* p.165

⁸ *Ibid.* p. 166

⁹ *Ibid.* p. 169

fluctuations in the balance of payments; Latvia had no problems holding this exchange rate through to 1931.

On 1 November 1922 the Bank of Latvia was established as the sole bank of issue of banknotes. The cover of issue was stipulated as follows: for an issue of less than 100 million lats, not less than 50% must be covered by gold or a stable foreign currency and the remainder by safe short-term bills; between 100 and 150 million Lats, for the sum over 100 million must be covered to the extent of 75% by gold or a stable foreign currency and 25% by safe short-term bills; and for the amount exceeding 150 million, 100% must be covered by gold and a stable foreign currency. Nevertheless, the Bank of Latvia pursued a policy of that 100% of all issued banknotes shall be covered by gold or a stable foreign currency. However, the Bank of Latvia was never a “central bank” as is commonly accepted. It was neither a lender of last resort, nor could it engage in open market operations. In fact it operated also as a commercial bank. Many of the “normal” central bank functions were in fact performed by the Treasury. The only central bank function the Bank of Latvia had, was the emission of banknotes. However, at the same time, the Treasury was given the right to continue to issue Treasury banknotes now converted to denominations of lats. Thus, Latvia was firmly enmeshed within the gold exchange standard of the interwar period.

When in 1931, Latvia’s biggest export partner – Great Britain, abandoned the gold exchange standard and devalued by about 40%, it was quickly followed by the Scandinavian countries and Finland, who pegged their national currencies to the Pound Sterling. Latvia was faced with the choice of abandoning the gold exchange standard or introducing exchange controls to curb the outflow of capital. The Latvian government did not abandon the gold exchange standard at this time, but on 8 October 1931 suspended the free exchange of the lat for gold while at the same time maintaining its gold parity exchange value.¹⁰ All transactions in foreign currencies were made the prerogative of the Bank of Latvia. A Currency Board at the Ministry of Finance was established to “manage” the currency and to distribute the proceeds from the export of goods and services. At the same time an Import Regulation Commission was established, which issued import licences. Thus, an importer had to firstly obtain an import licence from the Import Regulation Commission and then turn to the Currency Board to obtain the necessary foreign currency to make the transaction. With the availability of foreign currency being restricted and only at the official exchange rate, of course a black market developed with up to a 35% premium on foreign currency. In 1932, Latvia signed the

¹⁰ *Ekonomists*, 1931, No. 20, p. 727

so-called bilateral “clearing” agreements with Germany and France. The bilateral clearing system was an arrangement between the central banking institutions of two countries for carrying out trade transactions between them, including the balancing of credits and debits on a national level. The basic idea behind bilateral clearing agreements was to even out or “balance” trade between two countries, while at the same time conserving scarce foreign currency and gold reserves. By 1937, Latvia had signed clearing agreements with seven European countries – Germany, France, Sweden, Estonia, Lithuania, Italy and the USSR.

The Government used two arguments for managing the currency at the gold parity exchange value. First, an actual devaluation would not help matters and would only lead to inflation. That is, exchange controls were seen as preferable to devaluation, as the latter was associated with hyperinflation. Memories of the inflation and currency crises post-war were still powerful. Second, devaluation would be a breach of trust and faith in the lat. Although Latvia was not officially a member of the “gold bloc” group of countries, by maintaining the gold exchange parity as the official exchange rate it felt that it could look to this group of countries, especially France for leadership in terms of currency stabilisation.

Similarly to other central banks in Eastern Europe, the Bank of Latvia held most of its reserves in foreign currency (averaging 80% during the period 1925-1931).¹¹ In 1928, with banknote issue running at about 40-45 million lats, Bank of Latvia reserves reached some 95 million lats in gold and foreign currency, thus covering the currency issue by some 200%.¹² On 20 December 1930, the Bank of Latvia took a decision to restrict credit in an attempt to halt the outflow of foreign exchange reserves due principally to an increased negative balance of trade. However, the sudden devaluation of sterling in 1931 caused a capital loss of some 2.1 million lats in respect of its sterling reserves and the Bank of Latvia started to sell its foreign currency and buy gold.¹³ By 1934, the proportion of foreign currency holdings in the Bank’s reserves had fallen to 10.5%. During the same time period there was a decrease in the money supply – the amount of banknotes in circulation fell by 26%.¹⁴ The wholesale price index fell by 37 points from 120 in 1929 (1913 = 100) to 83 in 1934.¹⁵ This meant that the real value of the lat had in fact depreciated during the period by some 31%. At the same time the export price index fell by 89 points from 168

¹¹ *Ibid.* pp. 292, 459

¹² *Ekonomists*, 1931, No. 20, p. 725

¹³ *Ibid.* p. 459

¹⁴ *Ibid.* p. 460

¹⁵ *Ekonomists*, 1937, No. 4, p. 139

in 1929 (1913 = 100) to 79 in 1934.¹⁶ This meant that exporters received only 47% of the value in lats that they would have received in 1929 for the same amount of exported goods. The high official value of the lat meant that Latvia's exports were dearer and could not compete with those of her neighbours, which had devalued earlier (Norway, Sweden, Denmark and Finland in 1931, Estonia in 1933). Unemployment in Latvia peaked in 1932 at 31 027 from 14 580 in 1930 and had declined to 10 789 by 1934.¹⁷

After the *coup d'état* of 15 May 1934, the new authoritarian regime promised to maintain the gold parity exchange rate and passed laws which in theory tightened up the distribution of foreign currency for imports. They abolished the Import Regulation Commission and transferred its functions to the Currency Board, as well as providing for the possibility of paying for the imports from a particular country with Latvia's exports to that country – the so-called export clause. On the basis of the export clause, which was applied extensively by the Currency Board, a quasi-legal black market in foreign currency flourished as importers purchased foreign currency direct from exporters by paying a premium on the foreign currency so purchased. By 1936, the premium had reached some 40% of the amount purchased (that is, a real depreciation in the market value of the lat by 40%). Nurske called this the 'gradual extension the free market': "The extension of free-market transactions [i.e. payment of premiums] as a method of exchange adjustment has the advantage of allowing the "correct" rate to be gauged as a result of the free operation of demand and supply."¹⁸ Nevertheless, difficulties in obtaining sufficient foreign currency to purchase necessary imports due to the high official value of the lat continued. The Government even took a decision to temporarily ban the creation of new industrial sectors and the extension of existing industries in order to dampen demand for foreign currency for imported raw materials and energy resources. The new regime also encouraged autarky by restricting imports and subsidising import-replacement, as well as creating commodity boards to make the control of the administration of trade easier.

Thus, the reasons behind the refusal of devaluation and the insistence on official gold parity were first of all fear of inflation and adherence to the principles of the politics of stabilisation. The cost of the decision was the introduction of foreign exchange restrictions, and the sacrifice of the convertibility of the currency. The artificial maintenance of the fictitious exchange rate was a serious disadvantage for the export sector and

¹⁶ Ibid. p. 139

¹⁷ Latvijas Statistikas gada grāmata 1939, Rīga: Valsts statistiskā pārvalde, 1939, p. 295

¹⁸ Nurske (1944), p. 169

rendered the surmounting of the crisis difficult. The Latvian government and the leaders of the Bank of Latvia, however, continued opposing the devaluation of the lat.¹⁹

4. Devaluation of the Lat

By 1936 the Latvian economy found itself in paradoxical position. On the one hand it was obvious that the currency was overvalued, that exports were extremely depressed, and that the price level was under strong pressure as a result of low prices on the world market. The real economy stagnated. On the other hand, from a strictly monetarist point of view, the situation was basically sound: gold reserves were ample, interest rates low, and despite a trade balance deficit for most previous years (except 1932) the balance of payments was now moving towards a surplus. The Government believed that this low-level equilibrium could have persisted for a number of years after 1936, had not the “gold bloc” collapsed in that year.²⁰

When France devalued on 26 September 1936, thus effectively liquidating the “gold bloc”, Latvia decided to follow. In a radio broadcast on 28 September²¹, the Finance Minister, Ludvigs Ēķis, emphasised several times that Latvia could not remain isolated and disengage the economic and financial relations of Latvia from the rest of the world.

Thus, on 28 September 1936 Latvia devalued the lat by some 40% and aligned it with sterling.²² The exchange rate was fixed at £1 = Ls 25.22. This was the gold parity rate to sterling which had obtained up to September 1931 when Britain left the gold standard.²³ Thus, Latvia had in fact devalued to the level that had been established in the ‘free market’ of the export clause. The devaluation and the pegging to sterling was justified in economic terms (Britain was the main export trading partner, neighbouring countries were also in the “sterling bloc”, etc.) and in the hope that the Tripartite Agreement between the USA, Britain and France

¹⁹ In fact, in the radio broadcast announcing the devaluation on 28 September, the Finance Minister asserted that “the government had sufficient reserves to hold the lat at any level”.

²⁰ *Ekonomists*, 1936, No. 19, p. 658

²¹ Reported in the newspaper “*Valdības Vēstnesis*” [official Gazette of the Government of Latvia], 29 September 1936, pp. 1-2

²² *Ekonomists*. 1937, No. 6, p. 201

²³ *Finanču un kredīta statistika 1937*, V izdev., Rīga: Valsts statistiskā pārvalde, 1937., p. 224

held out the prospect of a new stable exchange rate system in which further competitive devaluations would be avoided.²⁴

In 1936, the Government also changed the rules regarding the issue of banknotes by the Bank of Latvia. The cover of issue was now stipulated as follows: for an issue of less than 100 million lats, not less than 30% must be covered by gold or a stable foreign currency and the remainder by safe short-term bills, but if the amount of issue exceeds 100 million lats, the cover by gold or a stable foreign currency must be at least 50%.²⁵ The money supply as a result of the devaluation the gold and foreign currency holdings of the Bank of Latvia was re-valued in terms of lats and showed a huge increase in nominal terms (from 56.8 million lats on 1 September 1936 to 103.1 million lats on 1 January 1937).²⁶ However, recalculating the increase taking into account the devaluation, the gold and foreign currency holdings increase is only 61.9 million lats – an increase of some 8%. The wholesale price index rose by 28 points from 89 in September 1936 (1913 = 100) to 117 in September 1937.²⁷ Thus, taking into account the devaluation of 40% the lat had appreciated some 24%.

Concurrently with the devaluation, the Government took a number steps to stabilise internal prices. Firstly, the volume of lats in circulation was not increased to avoid inflation. The price of most imports did not increase very much because it was already high due to the operation of the 'export clause' noted above. With the devaluation all premiums on foreign currency were abolished. The possibility of a rise in the price of imports was further reduced by the liberalisation of the import regime in relation to a large range of consumer goods. The currency regime was also liberalised to a degree, allowing importers greater access to both import licences and foreign currency. Finally, price controls, which had been in place previously were tightened up and provided for harsh penalties for those who wished to increase prices without the permission of the price control authority. As a result, whereas the consumer price index for 1936 was 73 (1930 = 100), in 1937 it had risen only by 6 points to 79 – an increase of some 8%.

The devaluation of the lat also signalled the end of attempts by the regime to implement economic autarky *à la* Germany and Italy. However, in order to reduce the windfall profits of timber exporters, especially those who had bought stocks cheaply (i.e. for "dear" lats), the Government introduced an export surcharge, which amounted to some 44% of the value

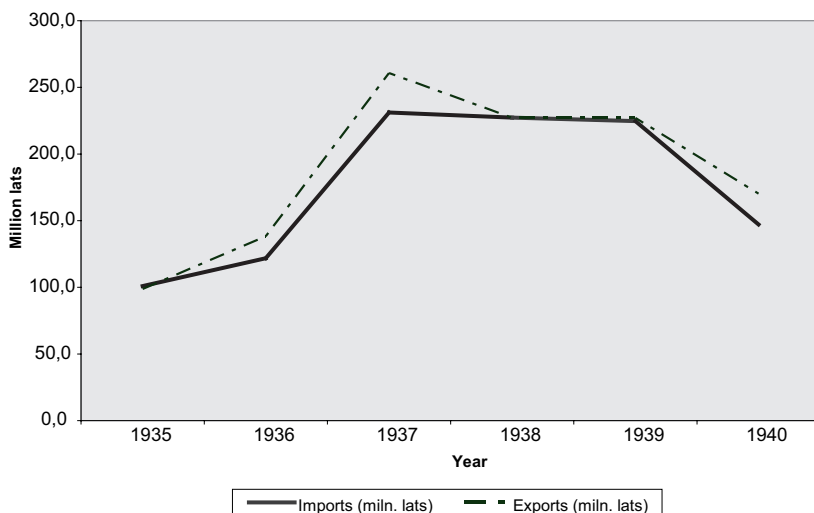
²⁴ Ekonomists, 1936, No. 19, p. 658

²⁵ Finanču un kredīta statistika 1937, V izdev., Rīga: Valsts statistiskā pārvalde, 1937., p. 223

²⁶ Ekonomists. 1937, No. 6, p. 201

²⁷ Ekonomists. 1937, No. 23, p. 961

of the timber FOB Latvian ports. From 1936 the Latvian balance of trade and the current account was in surplus.



Source: Author's calculations

Figure 1 Latvian Foreign Trade 1935-1940

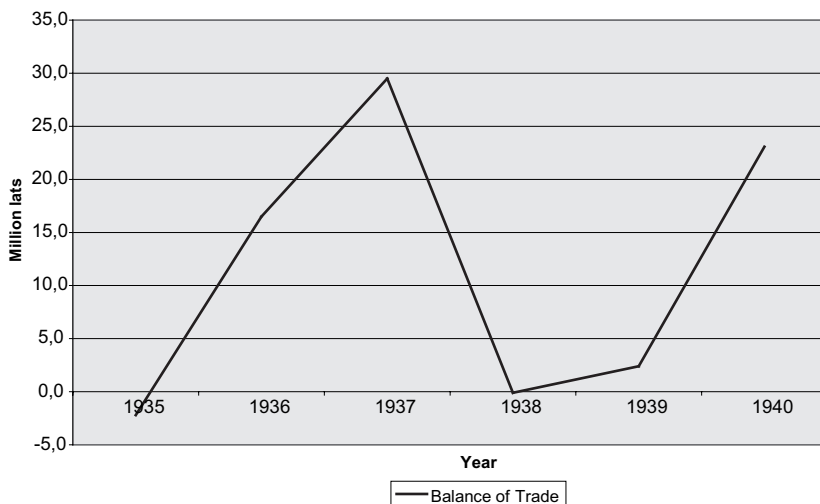
As can be seen in Fig. 1, overall, the immediate effect was a sharp rise in both exports and imports especially in 1937, with a slight decline in the following years (the figures for 1940 are for the first eight months).

5. J-curve Effect

In terms of the elasticities approach, an interesting relationship exists between the exchange rate for a nation's currency and its balance of trade. In principle, the drop in a nation's exchange rate, or price of currency, makes the currency less expensive to "buy." With "cheaper" currency the price of domestic production is less and the price of foreign stuff is more, causing an increase in exports to other countries and drop in imports coming in from foreign producers. The economy thus moves in the direction away from a trade deficit and toward a trade surplus. However, the first few months after a drop in the exchange rate the balance of trade goes in the other direction, with any existing trade deficit increasing or any trade surplus shrinking. This occurs because the quantities imported and exported don't change in the short run, but the prices do. Because more is paid for the same amount of imported goods and receive less for

the same amount of exports, total spending on imports increases, total revenue received from exports declines and the movement is in the trade deficit direction. Once those quantities start adjusting in the long run, then we see a movement in the direction of a trade surplus. Thus, devaluation has two effects on trade flows – a price effect and a volume effect. The combined effect when plotted over time with trade balance on the y-axis results in the *J*-curve.

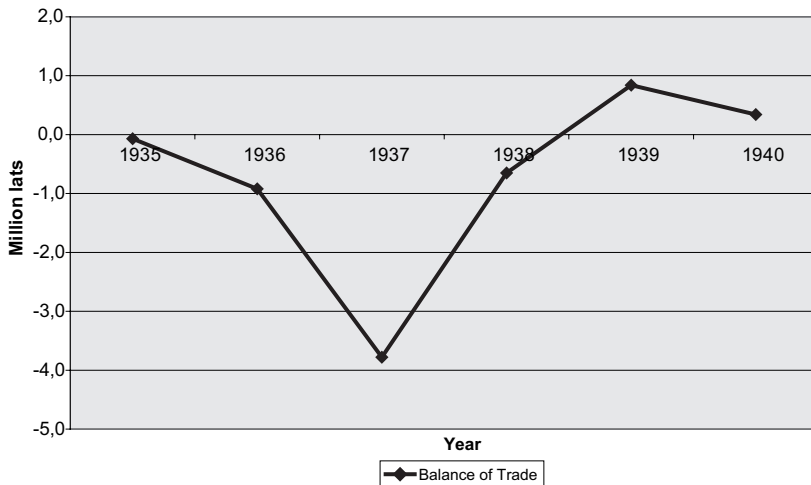
The Latvian trade flows were examined after the devaluation of the lat to see if the *J*-curve phenomenon held for Latvia. Utilising a somewhat primitive analysis technique based on monthly and/or yearly data it was found that there appeared to be no *J*-curve effect for the Latvian trade balance as a whole (Fig. 2). In fact, the balance of trade deteriorated markedly in 1938 before improving again in 1939-1940.



Source: Author's calculations

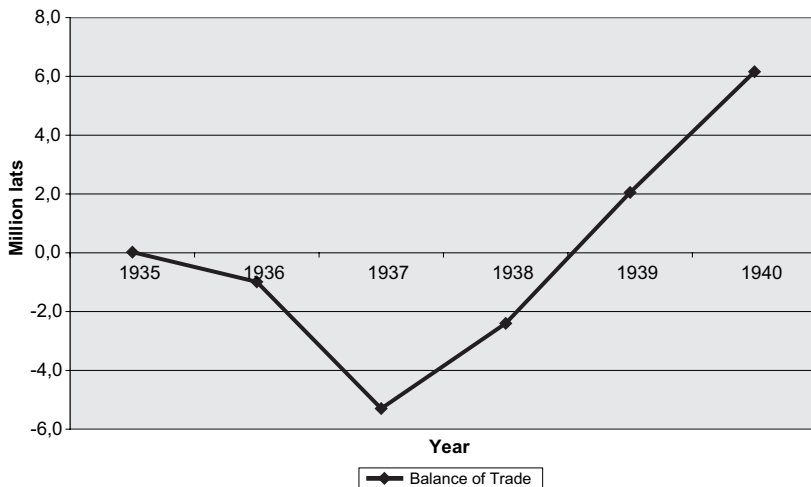
Figure 2 **Latvian Balance of Trade 1935-1940**

However, when trade balances were examined for selected trading partners an effect similar to the *J*-curve could be observed, for example, for Denmark and Sweden (Figs. 3 and 4).



Source: Author's calculations

Figure 3 Latvian Balance of Trade with Denmark



Source: Author's calculations

Figure 4 Latvian Balance of Trade with Sweden

As can be seen from Figs. 3 and 4, it took approximately two years for the beneficial effects of the devaluation to show up as an improvement in the current account trade balance with Sweden and Denmark.

There appears to be a number of reasons for this observed lag in the volume adjustment in response to the devaluation. Firstly, in an effort to dampen a possible domestic price increases, the Government reduced tariffs on the importation of consumer goods. Thus, those countries which mainly supplied such goods there was increase in the importation of these goods. However, the corresponding lower prices for Latvian exports pushed up the volume of exports especially in 1937. Where exports rose much faster than imports (as for Sweden and Denmark) the *J*-curve effect could be observed. It should be noted however, that these Scandinavian countries belonged to the so-called “Oslo Group”, which included also Norway, Finland, Holland and Belgium. At the Oslo Group conference in Copenhagen on 5-6 April 1936, the issue of mutual economic assistance in the event of a possible international crisis or war blockade was discussed.²⁸ Clearly however, Latvian export goods were of value for adding to prudent stockpiles, which would probably explain the sudden rise in exports to these Scandinavian countries in 1939 (exports to Denmark nearly tripled and to Sweden they doubled).

It would seem that the lag times for Latvia’s trade balance a whole may be longer than for individual states, as well as possibly being associated with the volume of trade of both the nation as a whole and with each state separately.

6. Conclusions

The effects of devaluation can be complex and far-reaching. In theory, a weaker currency means that exports from the affected country will be cheaper relative to prices in other countries, and that imports will be more costly. These conditions may provide a boost to an economy that has undergone devaluation, but typically there are negative consequences as well, both internally and externally. And depending on the nature of a country’s trading structure, the benefits may never materialise at all.

It is clear that the Latvian 1936 devaluation had a differentiated effect on Latvia’s foreign trade with the Scandinavian countries and rest of the world. The favourable world economic situation in 1937 (high timber prices)²⁹ contributed to a substantial rise in total exports after devaluation. However, the general effect of the devaluation on Latvia’s foreign trade was dampened through the total control by the authoritarian regime over Latvian foreign trade, strict internal price controls, and the clearing

²⁸ LVVA, 2575.f, 8.apr., 79.l. – p. 164.

²⁹ Timber prices fell in 1938 and 1939, thus contributing to a fall in total exports for these years as can be seen in Fig. 1.

agreements with several states, including Sweden. Latvia's low, but definite foreign trade turnover with Sweden and Denmark prior to devaluation, as well as the purchasing policies of the Oslo group, which also were introduced in 1936, could be the reasons for the J-curve phenomenon in relation to the export trade balances of Latvia with these countries. On the other hand, Latvia's import trade balances could be related to the needs of the Ķegums Hydro-electric power station (partly financed by Sweden) and more freely available foreign currency for importers.

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TRENDS OF DEVELOPMENT AND POSSIBILITIES OF EFFICIENCY IMPROVEMENT IN MARKETING COMMUNICATIONS

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Abstract

This survey article covers the essence and the key role of marketing communications in the market nowadays, the trends of development of marketing communications – the growing popularity of the Internet, changes in the consumers' communications, the increased importance of direct marketing, as well as the selection of marketing communications based on the stages of product life cycle. The article discusses the main methods of assessing the efficiency of marketing communications and a model of assessing the efficiency of these methods, which reflects the communicative, economic and social efficiency of marketing communications. Attention is also devoted to the indices that depend on the buyers' behaviour in the market, the main types of marketing communication at a particular stage of buyers' behaviour and the methods that help determine the efficiency. The model offered is based on the results of a study of the construction supplies market conducted by the authors in 2011 where they used data of companies, polled consumers with a sample of 400 respondents, as well as performed an examination.

Keywords: Latvia, marketing communications, current trends of development, methods of efficiency assessment

Introduction

One of the key factors of selling goods and services is efficient marketing communications with the buyers and the society in general to entail interaction with all participants involved in the process of selling and buying, thus promoting feedback.

The goal of marketing communications at the first stage is to attract the buyers' attention by stirring interest in the products offered and the company, whereas at the second stage marketing communications are supposed to help the company achieve that the buyers make a repeated purchase and become regular consumers of the product or loyal customers of the particular shop.

In order for the company to build its image and promote its products in the market, a variety of types of marketing communications – advertising, sales promotions, public relations, personal selling and direct marketing – are engaged. These days, companies frequently implement marketing communications inconsiderately, without prior market research and analysis of the target audience and its needs. Due to not analysing the efficiency of marketing communications they make mistakes in selecting the type of marketing communications with the buyers, which result in a reduced competitiveness, a negative public attitude towards the company and losses in the long term. Such a situation in the market stems not only from the lack of funds, but also from poor professional knowledge and skills of the management and marketing specialists.

Essence and role of marketing communications

Marketing communications can be defined as: “the distribution of information about companies, products, prices, placement of products, sale and other marketing activities to influence the consumers’ behaviour and to promote products in the market.” [9, 17] There are multiple types of marketing communications or methods of product promotion in the market, namely advertising, sales promotion, public relations, personal selling and direct marketing.

In order for the process of marketing communications to be efficient, it is crucial to determine the desired target audience, i.e., whom to address the message or, from the market point of view, who the potential buyers will be. In order to succeed, it is important to understand what the company expects from the potential buyers after conveying information. When selecting the communication channel, an analysis of media efficiency and target audience is recommended. It should be kept in mind that not every channel of information delivery is available for the target audience, hence a market study and an assessment of efficiency of marketing communications is necessary.

The objective of marketing communications is to attract the potential buyers’ attention by arousing interest in the product offered. If communication has been comprehensible and the idea has been perceived, it should arouse a need for the product, and the potential buyer will most probably act and purchase it. After the first time of purchase, the next step must be taken – to achieve via marketing communications that the buyer makes a repeated purchase of the product and becomes a regular consumer or loyal customer. For that purpose, all the afore-mentioned types of marketing communications or product promotion methods are used. The methods are not interchangeable, hence it is important to

know that, for instance, “the tasks of direct selling cannot be fulfilled via advertising, just as public relations cannot be replaced by sales promotion. Promoting a product in the market means conveying information on the product to the buyer and consumer as efficiently as possible.” [3,175] Thus, when it comes to promoting products in the market, all types of marketing communications are used by joining them in a variety of combinations and practically applying them as a complex of marketing communications.

Current trends of development of marketing communications

Based on research in the Latvian market and an analysis of scientific literature, the authors concluded that the following trends of development are present in marketing communications:

1. The rise in popularity of the Internet as advertising media;
2. Extensive communication possibilities among consumers;
3. The increasing role of direct marketing;
4. A stronger link between marketing communications and the stages of buyers' behaviour in the market; and
5. The selection of marketing communications based on product life cycle.

Rise in popularity of the Internet as advertising media

One of the most popular types of marketing communications is advertising. It is “a paid and non-personalized way of marketing communications, implemented by identified advertisers by using various techniques of development and means of distribution to influence the buyers' behaviour in the market and reach the goals of communications.” [9, 20] More simply it could be referred to as “paid information in the mass media.” [3,175] Advertising is a long-standing way of spreading messages. For instance, “the ancient Romans wrote announcements of gladiator battles on the walls, while the Phoenicians bescribbled rocks with praises of various goods during their wanderings.” [9,21] This proves that the development of advertising as a type of marketing communications has gone all the way from the ancient times to nowadays with its role remaining unchanged, i.e., to distribute information, to strengthen an image, to build an opinion towards a product and its quality.

High efficiency of advertising messages, which indicate the level of identification, attraction and interest, can be achieved by observing several aspects. “Studies suggest that there is a strong correlation between the loyalty of consumers to a certain brand and its recognisability. The attraction of an advertisement seems to be the only credible parameter that allows forecasting the sales increase with a precision of 97%. Interest

is closely related to attitude towards advertisements.” [3,181] For instance, before spending funds on advertising the company must understand the needs, interests, motivation, lifestyle etc. of the target audience. When the company finds these out, it will be able to create and formulate their own message they are willing to tell the potential buyer or consumer. The project director of advertising agency *Leo Burnett Riga* admits that “the main keyword on the way to an efficient advertisement in the future is credibility.” [8, 88]

Currently, there is a lot of ways of placing advertisements in the media. The question is which of them is the most efficient, as the medium chosen by the company for conveying their advertising message will be a key condition of its success or failure.

Table 1 Shares of media groups in the Latvian advertising market by years (net, %, LVL) [16]

Medium	2006		2007		2008	
	Net	%	Net	%	Net	%
Newspapers	18 927 000	24.9	20 669 000	22.0	17 654 000	18.2
Magazines	11 189 000	14.7	16 264 000	17.3	15 557 000	16.0
TV	27 112 000	35.7	32 783 000	34.9	34 684 000	35.7
Radio	8 531 000	11.2	9 764 000	10.4	10 606 000	10.9
Outdoor	6 535 000	8.6	8 076 000	8.6	9 470 000	9.8
Internet*	3 263 000	4.3	5 889 000	6.3	8 491 000	8.7
Cinema	453 000	0.6	494 000	0.5	635 000	0.7

Medium	2009		2010		1 st half 2011	
	Net	%	Net	%	Net	%
Newspapers	7 542 000	14.3	5 154 000	11.2	2 620 000	10.8
Magazines	5 809 000	11.0	4 078 000	8.9	2410000	9.9
TV	20 752 000	39.2	20 536 000	44.7	11180000	4,9
Radio	6 520 000	12.3	5 294 000	11.5	2650000	10.9
Outdoor	5 881 000	11.1	4 607 000	10.0	2130000	8.7
Internet*	6 019 000	11.4	5 906 000	12.9	3250000	13.3
Cinema	355 000	0.7	317 000	0.7	115 000	0.5

*Includes advertising data of web resources outside Latvia

Considering the above, the authors conclude that the Internet tends to take a more prominent role as communication medium in the Latvian advertising market, most likely because the Internet is a cheaper means of communication than television, radio, magazines and newspapers. Moreover, in the circumstances of economic globalization where e-commerce has become a serious business industry, the Internet is an integral part of business rather than merely a way to spend one's spare time.

Not only mass advertising, but also other types of marketing communications are developing on the Internet. For instance, there are many new websites offering coupons. The leaders in this niche in Latvia are such companies as *Pērkamkopā.lv*, *Citylife.lv*, *Kopālētāk.lv* and *Superakcijas.lv*. Recently there has been a growing trend to shop using coupon, most probably due to the economic situation and the importance of price nowadays, as well as the idea that "Latvia follows the European trends, as in Europe the collective bargaining sites saw an audience increase by 162% in 2010." [14] Hence the authors would like to stress the importance of sales promotion in the present market conditions. Considering the overall decline of consumers' purchasing power, the price or an opportunity to get more for the same money becomes the primary factor during the buying decision. That is why price discounts; gifts on purchases etc. have taken such a prominent role. The authors' research suggests that there already exist groups of consumers who regularly shop on the Internet and follow the news about discounts and coupons on the specialised websites with a view to save as much as possible on all their needs. However, it should be noted that such websites are unlikely to make the buyers loyal to a particular product. The distribution of coupons implies a high risk that the buyer will take advantage of the special offer and then keep looking for coupons offered by other companies.

The above stems from the inherent peculiarities of this way of shopping as such. The consumers who regularly follow collective bargaining websites are those to whom price matters more than quality of service, staff consultations, experience and knowledge, and they constantly make purchases based on that principle. Therefore, the merchants should consider what products to offer to this target audience, and the most likely choice would be ones that need to be sold out as seasonal goods or others that are high stock at warehouses and may soon become non-liquid inventory.

Extensive communication possibilities among consumers

Taking into account the development of information technologies and the Internet as a mass communication medium, there is an increasing

popularity of such social websites as *facebook.com*, *twitter.com*, *draugiem.lv* etc. in public relations. These are virtual communication networks where members can exchange with both information and experience, and, with the growing public interest, companies also pay more attention to communication with the society via these means. They provide information on products, events, campaigns etc. in a brief form for the site users to be able to notify their friends, relatives and acquaintances, and the information is by all means passed further as recommendations to other people resulting in an exact delivery to the desired target audience. It enables the company to save resources and time, whereas the buyer can learn and follow any relevant information from anywhere in the world, discuss it with friends; seek for opinions, comments, complaints. The aforesaid suggests that the communication habits of consumers have changed due to the development of technologies. By taking advantage of the current opportunities, companies can pass information to consumers, while the latter can communicate among themselves, which alters the process and essence of communications.

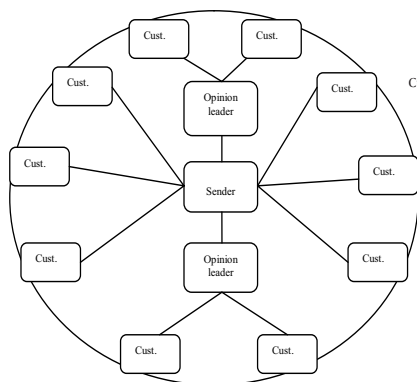


Figure 1 Communication of company with consumer through opinion leader
[11,175-176]

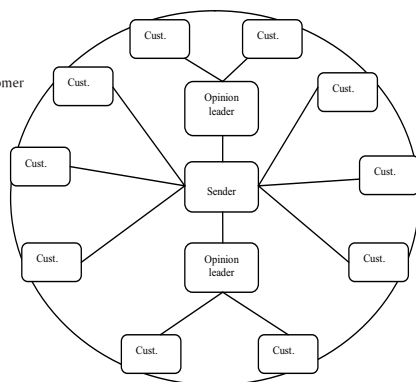


Figure 2 Communication among consumers regarding company's products
[11,175-176]

Figure 1 reveals the communication between a company (the message sender) and customers through an opinion leader in a classic variant where companies choose a publicly known person, adviser, etc. as the opinion leader. Figure 2, for its part, demonstrates the communications among consumers, the stage of development when they communicate with

each other rather than rely only on an opinion leader. Hence the authors conclude that:

- when communicating with the consumers, the companies should reckon with the fact that the consumers will communicate among themselves, so both successes and failures of the companies will be discussed. Information should be unambiguous, with no room for varied interpretations,
- the consumers are able to establish interest groups, while the companies should know that insiders, interested persons or competitors may comment on a company's failure and distribute the news further, and
- the companies should be aware that information regarding them and their products will quickly spread over large masses of consumers. Incorrect product or service information provided by a company may affect its image and reputation. It can neither predict the number of consumers to whom the information will become available, nor the responsiveness of customers.

Increasing role of direct marketing

In the literature, direct marketing is defined as: "Direct connections with carefully targeted individual consumers to both obtain an immediate response and cultivate lasting customer relationships." [1,447] It follows from the definition that the goal of direct marketing is to induce an immediate buyer's reaction in any location, so any technology used in business nowadays – the Internet, e-mail, phone etc. – can be used as a channel for conveying information. "Direct marketing means sending messages to a customer (direct mail, telemarketing, and interactive marketing) and impelling for action, including the use of positive customer feedback in marketing activities." [13] In order to communicate with the buyer, it is necessary to segment the market and arrange buyers by target groups, thus facilitating a positive influence on a particular consumer.

The development of direct marketing stems from the use of information technologies that help "get better acquainted with the market and improve the recognisability of a product or company. In terms of return on investment it is recognised as a good alternative to advertising in the mass media." [4, 28] The authors conclude that this has probably resulted not only from the development of technologies, but also from changes in the consumers' habits.

From the merchant's point of view it implies the costliness of professional selling staff nowadays, whereas from the consumer's point of view it is time-saving on the way to shopping and sitting in a traffic jam or looking for a parking place for one's car, which also costs money; also

queues at cash-desks, often the incompetence of staff and other factors that make them appreciate the advantages of shopping at home 7 days a week 24 hours a day.

“Direct marketing is beneficial to customers in multiple ways:

- shopping at home can be pleasant, convenient and care-free;
- it saves time and acquaints consumers with a broader assortment;
- consumers can do comparative shopping by exploring mail-in catalogues and online shopping sites;
- consumers can order goods for themselves or other persons; and
- business customers benefit from obtaining information on the available products without spending time on communication with sales personnel.”[7,604]

Apart from the advantages mentioned above, companies benefit from direct marketing with the possibility to compile lists and databases of customers, sorting them by various criteria, for instance, the level of income, gender, and education etc., thus automatically composing target audiences. Consequently, it is possible to work with particular customers individually. Moreover, direct marketing activities are less apparent to competitors, thus enabling companies to be individual in their operation as far as sale is concerned.

The authors conclude that direct marketing techniques are of good use when a company already possesses information on the range of buyers because it is necessary to conduct a market study and compile a marketing database where the buyers would be sorted by certain criteria, thus composing the target audience. On that basis it becomes possible to attract buyers and work with them in a personalized way. For instance, if a company develops databases of customer service and relation management, it is possible not only to serve a particular target audience, but also to attract loyal buyers by offering a system of volume discounts, flexible terms of delivery etc.

The recent flush of direct marketing has taken place due to changes in the consumers' lifestyle, the fierce competition in the market, the increasing marketing costs, the development of technologies, new distribution channels etc. The use of direct marketing may raise the consumers' reliability and the range of loyal customers in the vast supply of goods and services in the market where consumers may easily get confused of the assortment and high prices.

Stronger link between marketing communications and the stages of buyers' behaviour in the market

When planning and implementing marketing communications, companies should take into account at what stage of behaviour in the market

the target audience currently is. Figure 3 presents the level of efficiency of various marketing communications depending on the buyers' behaviour in the process of purchase.

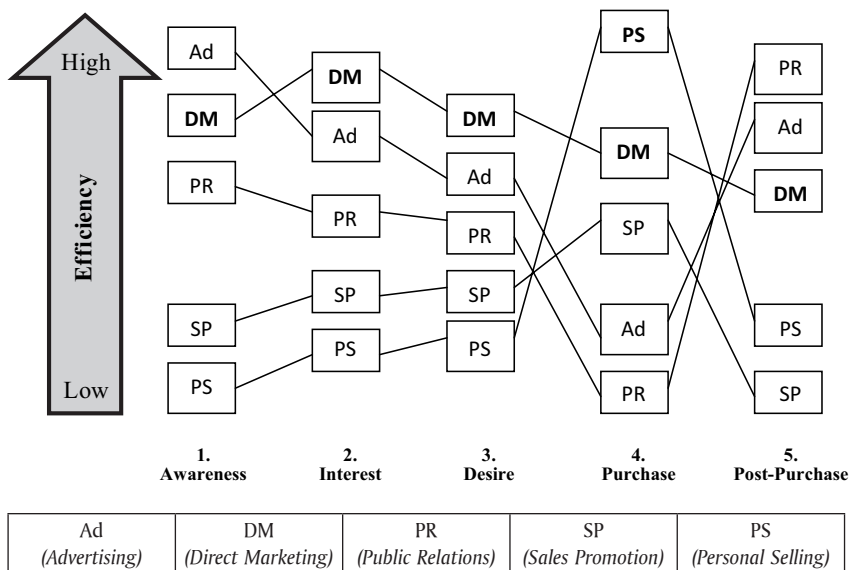


Figure 3 Efficiency of marketing communications depending on the stages of buyers' behaviour in the purchase process [6,150]

As shown in Figure 3, each stage of buyers' behaviour has a different order of priority of marketing communications, but there is a persistent tendency of direct marketing being the most universal at all stages of buyers' behaviour, reaching high efficiency. Although advertising is also effective at every stage of buyers' behaviour (except for buying), its role has become less prominent, as it follows from Figure 3 that advertising reaches a high level of efficiency only at the stage of emergence of need when a lot of information regarding the product is necessary.

Selection of marketing communications based on product life cycle

In literature, marketing communications are frequently related to the product life cycle. Therefore, different stages of product life cycle require different types of marketing communications. Figure 4 is an illustration with a relevant example.

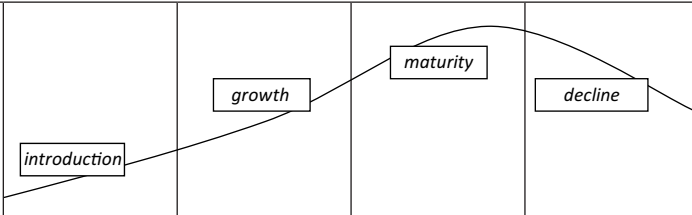
Stage of product life cycle				
Goal of product promotion	to inform	to persuade	to remind	
Activity of product promotion	<ul style="list-style-type: none"> • Meetings and exhibitions at specialized shops • Advertising in mass media • Sales promotion with free samples 	<ul style="list-style-type: none"> • Personal selling at shops • Advertising on individual product features and advantages 	<ul style="list-style-type: none"> • Reminding advertisement • Sales promotion with discounts and coupons • Limited personal selling • Sponsorship of events 	<ul style="list-style-type: none"> • Reduction of funds for market purposes and low sales promotion costs

Figure 4 Company's marketing communications at the stages of product life cycle [2,442]

Figure 4 shows that at the first stage of life cycle of a product it is necessary to inform the potential buyer via advertising in the media. At the second stage when the objective is to remind the buyer of the product, its features and quality, personal selling is a good choice, whereas at the stage of maturity advertising should be used to remind the buyers of the product's existence and sometimes the product should be sold, e. g., for a lower price, as if to attract both the consumers' and the potential buyers' attention. At the last stage of the product's life cycle, it is useful to opt for sales promotion techniques. The authors would like to stress the importance of selecting marketing communications depending on the stage of product life cycle since there is a vast assortment of products and many alternatives in the market, with new products and services entering the market every year.

Types of efficiency of marketing communications and methods of assessment thereof

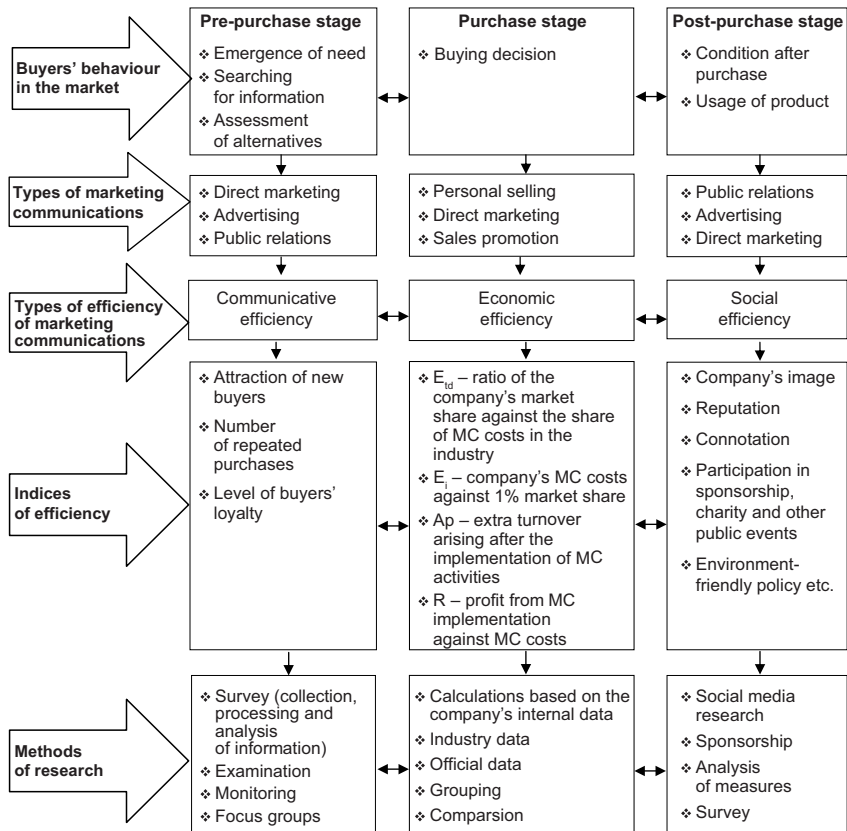
Marketing communications are directed towards ensuring the company's growth and sales improvement by attracting new and retaining the existing buyers. However, in order to achieve growth, promote sales and attract new

customers, marketing communications need to be efficient. The efficiency of marketing communications divides in the following types:

- “communicative efficiency – a type of efficiency indicating how efficiently marketing communications between companies and buyers develop in the aspect of buyers’ behaviour;
- economic efficiency – a type of efficiency shown as the ratio of marketing communication costs against the company’s sales increase over a certain period of time; and
- social efficiency – a type of efficiency indicating the degree of reaching the social goals of marketing communications.” [10,426]

The economic efficiency enables the company to assess numerically how the demand for products or product groups has changed with the application of marketing communications. The communicative efficiency will allow the company to find out which types of marketing communications have been most efficient and made the consumer recognise and remember a certain product or product group. The efficiency of social marketing communications, for its part, yields answers to the questions of what the consumers’ needs are, how the consumers want to purchase the products and how important the products are in their lives.

It should be noted that the efficiency of marketing communications depends on the factors of internal and external marketing environment. In order to determine this efficiency, it is crucial to know the situation before and after any product promotion measures. “Whatever the goal of communication – the building of recognisability, the introduction of a new product or the promotion of an existing product, – the company must always record the situation before the start of a communication campaign, for instance, what its recognisability or sales are, define clearly and in figures what the desired result of the campaign is, for instance, by what percentage the recognisability index or sales amount should be improved; when the campaign is over, the company should measure its efficiency – whether the goals have been reached, whether all the communication elements chosen have yielded an equal result or there are weaker and stronger points, with the latter worthy of use in future campaigns.” [12] To find answers to those questions and conduct research, it is important to choose the efficiency calculation methods: quantitative and/or qualitative (for instance, observation method, questionnaire, interview, experiment etc.). The authors believe that the assessments of efficiency of marketing communications should be linked with the stages of buyers’ behaviour and the types of marketing communications. (See Figure 5)



Source: created by the authors.

Figure 5 Efficiency assessment model for marketing communications

Figure 5 presents the communicative, economic and social efficiency, the indices of which depend on the buyers' behaviour in the market, the primary types of marketing communications at a particular stage of buyers' behaviour and the methods and parameters that help to determine the efficiency. On the basis of the author's study of marketing communications in the Latvian construction supplies market and the comparison of scientific literature, the following was concluded with regard to a company's communication with consumers:

- At the pre-purchase stage, when the consumers have a need for the product and they look for relevant information and assess the product alternatives, the objective is to reach the communicative efficiency. This can be done via direct marketing, advertising and

public relations, which may result in an increased number of new customers, level of buyers' loyalty and number of repeated purchases. In order to assess whether the communicative efficiency has been reached, it is necessary to conduct a survey, examination, monitoring, to gather information and to process and analyse data.

- At the purchase stage when the consumers actually make the purchase, the key types of marketing communications are personal selling, direct marketing and sales promotion, which motivate and stimulate the consumers to buy. On the basis of the company's data on purchases and a comparison with the industry and other official data it is possible to assess the economic efficiency, which can be expressed as the profit from the implementation of marketing communications against the costs of marketing communications, the extra turnover emerged after the implementation of marketing communications or, for instance, the company's marketing communications against 1% market share.
- At the post-purchase stage when the consumers use the products, it is good to use public relations, direct marketing and advertising in communication with the consumers in order to reach social efficiency, arouse in the consumers positive connotation of the company and its products and build the company's image and reputation. In order to assess the social efficiency, it is necessary to analyse sponsorship activities, conduct social media research, analysis etc.

Conclusions:

1. The trends of development of marketing communications nowadays are the rise in popularity of the Internet as an advertising medium; extensive communication possibilities among consumers; the increase of importance of direct marketing; the strengthening of link between marketing communications and the stages of buyers' behaviour in the market; the selection of marketing communications based on the stages of product life cycle.
2. The economic efficiency enables the company to assess numerically how the demand for products or product groups has changed with the application of marketing communications. The efficiency of social marketing communications, for its part, will yield answers to the questions of what the consumers' needs are, how the consumers want to purchase the products and how important the products are in their lives, whereas the communicative efficiency will allow the company to find out which types of marketing communications have been most efficient and made the consumer recognize and remember a certain product or product group.

3. The proposed hypothesis on the difference of types of efficiency of marketing communications was tested in the construction supplies market. Using the data of companies and conducting a survey of consumers and examination, the authors discovered the differences in the efficiency of marketing communication at the stages of buyers' behaviour in the market.

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“LEADERS MUST LEARN HOW TO CREATE AN ORGANISATIONAL CLIMATE WHERE OTHERS APPLY INNOVATIVE THINKING TO SOLVE PROBLEMS AND DEVELOP NEW PRODUCTS AND SERVICES.”

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Abstract

There are many different components that can influence a company's innovation power: processes, structure, methods, strategies, or maybe even the branch the organisation acts in. However, there is research enough showing that innovation power is highly depending on organisational culture. As a background, the article shows how innovation is linked to organisational culture and values. In addition, it shows the importance of leadership to innovation and explains why appropriate leadership is the most important precondition for developing new ideas and services. The article helps to get a deeper understanding of the dependencies between innovation, organisational culture, and leadership and discusses additional leadership issues that can hardly be limited to the process of innovation.

Key words: Innovation, organisational culture, values, leadership

1 Theoretical background of discussion

Innovation – why it matters

Innovation is a fundamental element of long-term success (Davila et al. 2006: 16). Today, it matters not only at the level of the individual enterprise, but also increasingly as the origin for national economic growth (Tidd & Bessant 2009: 5). There are enough analyses that prove a mutual dependency between innovation and success of companies. Statistics Canada, for example, identified in 2006 that innovation is consistently found to be the most important characteristic associated with success in companies. In addition, innovative enterprises typically achieve stronger growth or are more successful than those that do not innovate (Statistics Canada 2006). In fact, innovation has become a core driver of growth, performance, and valuation (Barsh et al. 2008: 37).

70% of the organisations with a positive attitude towards innovation declare that they outperform their competitors and it is those companies that have seen an increase in profits over the past years (Von Stamm 2008: 480). Furthermore, one can find analyses revealing that there is a clear connection between the technological position of a business area, its market position, its earnings and the extent to which it can safeguard jobs and even expand its workforce (Eberl & Puma 2007: 15). Therefore, it goes without saying that the ability to continuously innovate is of critical importance to the long-term success of any organisation (Terziovski 2007: 19). The need to innovate in order to keep competitive advantages is already known to be crucial for sustainable success in many companies. In the future, the only reliable security for any company is the ability to innovate better and longer than competitors. And, “organisations ... cannot expect to survive without innovation” (Davila et al. 2006: 28).

Innovation, organisational culture, and values

Studies have shown that innovation is extremely complex and involves the effective management of a variety of different activities (Trott 2008: 25). The key findings of a survey from 2006 by *Business Week* and *Boston Consulting Group* of over 1.000 senior managers in Table 1 reveal how different the explanations for a company to be innovative can be.

Table 1 Explanation for Innovative Capability (Trott 2008: 25)

Innovative firm Explanation for Innovative Capability	
Apple	Innovative chief executive
Google	Scientific freedom for employees
Samsung	Speed of product development
Procter & Gamble	Utilisation of external sources of technology
IBM	Share patents with collaborators
BMW	Design
Starbucks	In-depth understanding of customers and their cultures
Toyota	Close cooperation with suppliers

Having shown this, it still does not become obvious what a company has to do to increase innovation power. However, there is scientific research showing that, in general, there are many different influencing factors. While some studies claim a certain group of factors being crucial, other studies ignore the very same factors and claim very different factors to be decisive (Van der Panne et al. 2003: 310). In an extensive literature research on success and failure of innovation

projects that included 43 studies dating back to 1972, Van der Panne, Van Beers, and Kleinknecht identified and classified success factors under four major headings:

1. Firm related factors
2. Project related factors
3. Product related factors
4. Market related factors.

Figure 1 shows further detail about this and explains what is meant by the headings.

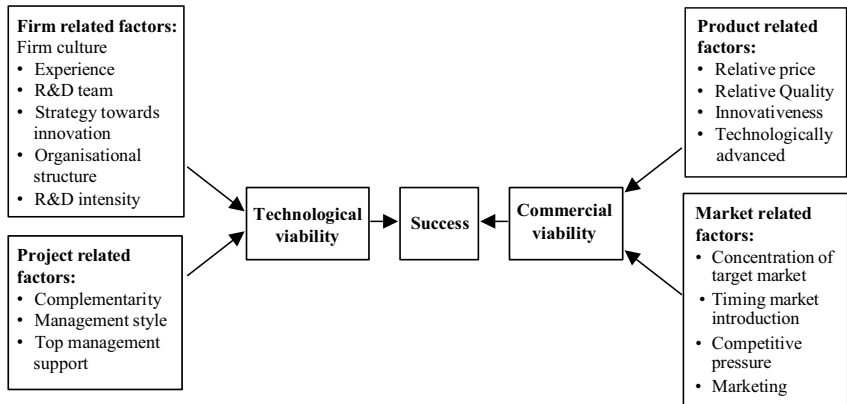


Figure 1 Critical factors for innovative success (Van der Panne et al. 2003: 312)

As a conclusion and as an integral part of the firm related factors, the authors confirm that a company’s culture is one of the most important factors for successful innovation. It is undisputedly considered crucial to the firm’s technological capabilities in the long term (Van der Panne et al.

2003: 312). Other authors can also reconfirm this. Von Stamm, for example, states that creating an innovative organisation requires a people-centred approach; after all, it is people who come up with new ideas and transform them into innovative products or services, not processes (Von Stamm

2008: 329). Davila explains that innovation needs to be an integral part of the way a company operates every day and of the whole business mentality (Davila et al. 2006: 11). A McKinsey Quarterly study from 2008 found that senior executives almost unanimously – 94 per cent – say that people and corporate culture are the most important drivers of innovation (Barsh et al. 2008: 38). After all, a culture of innovation is the fertile ground in which tomorrow’s innovations will bear rich

fruit and make the company grow sustainably in the end (Eberl & Puma 2007: 6). Thus, the capability of an organisation to create value out of innovation heavily depends on a strong innovation culture (Terziovski 2007: 213). Von Stamm reconfirms that creating the right culture is key to innovation (Von Stamm 2008: 475). The literature on organisational innovation, both anecdotal and empirical, emphasizes the importance of culture as a major determinant (Prajogo & Ahmed 2006: 501).

In general, there is no consensus about the definition of the term organisational culture (Hofstede et al. 1990: 286). However, it has acquired a status similar to structure, strategy, and control (Hofstede et al. 1990: 286) and it does play an important role in academic research studies, literature, and business practice. Edgar H. Schein describes culture as a deep phenomenon, merely manifested in a variety of behaviour (Schein 1986: 30), for example. The culture of an organisation is like a shadow of all processes, methods, tools, and procedures used in a company. It is always there, but can hardly be seen at first sight. It defines a more or less shared and collective sense of “who we are as an organisation” (Puusa & Tolvanen 2006: 30).

Different approaches about organisational culture (Schein, Homma and Bauschke, Fairfield-Sonn, Vargas-Hernández and Reza Noruzi) have one thing in common, though: they all deal with values. Apparently, values play an integral part in organisational culture. Khazanchi et al., for example, see organisational values as a foundational building block of innovation – supportive culture (Khazanchi et al. 2007: 873). Hofstede states that, although conceptualisations vary, organisational culture is defined broadly as a collection of values, beliefs and norms shared by its members and reflected in organisational practices and goals (Hofstede et al. 1990: 286-316). Quinn and Rohrbaugh even describe values to be a primary building block for culture (Khazanchi et al. 2007: 873). Khazanchi et al. also identified different studies that suggest an innovation-supportive culture to derive from values, which inform an underlying belief structure and reinforce daily practice (Khazanchi et al. 2007: 873).

Prajogo, for example, points to the importance for organisations to develop managerial practices and actions that function as a stimulus for encouraging and energizing people to innovate through development and accumulation of ideas and knowledge (Prajogo & Ahmed 2006: 502) – a first indicator that management plays an essential role here. Unless a company creates a climate of creativity, welcome to change, tolerance of risk and failure, and democratic involvement, it will not succeed in innovations (Terziovski 2007: 29). The famous development of the Post-It sticker at 3M was the result of unplanned activity – but it was possible only in the kind of relaxed and communicative atmosphere that promotes such innovations.

"If you put fences around people, you get sheep."
 (William McKnight, 3M) (Eberl & Puma 2007: 14)

This quote is one of the basic guidelines at 3M – a company that is certainly included in Boston Consulting Group’s list of the most innovative companies ever. However, speaking of 3M, it is also interesting that nearly 60% of the creative ideas fail in this highly innovative company (Prajogo & Ahmed 2006: 502). This indicates a very high tolerance towards risks and failures.

People need freedom to be innovative – integrating someone into a process and saying: "Now, be innovative!" is just not enough (Eberl & Puma 2007: 237). Innovation requires openness to questioning and debating the current approach to business (Davila et al. 2006: 23) – because recognising that those things that brought success in the past will not necessarily do so in the future, is part of an innovation-friendly culture. Apart from freedom, debating and risk taking there are some more values influencing innovation as shown in Figure 2. The figure indicates scores per climate factor, showing the difference between the most and the least innovative companies involved in this research included in Tidd’s and Bessant’s results.

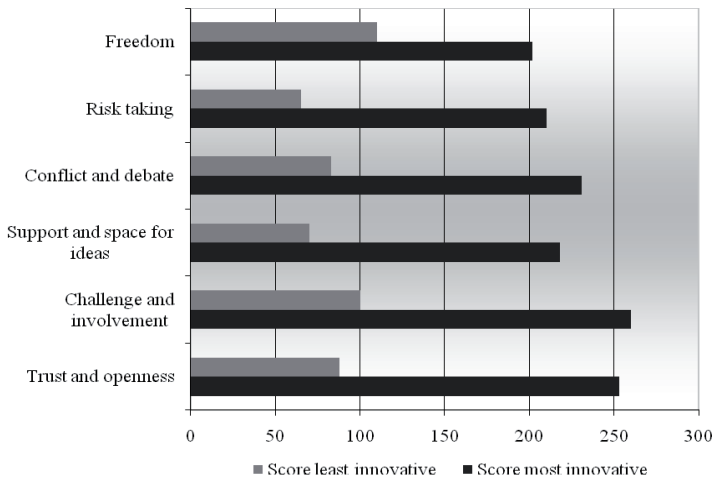


Figure 2 Climate factors influencing innovation (Tidd & Bessant 2009: 138)

According to Fig. 2, it goes without saying that values like trust, involvement, freedom, and tolerance towards risks and conflicts very much contribute to innovation power. Terziovski reconfirms this by stating that a democratic, risk-tolerant and people-oriented culture characterises

organisations capable of innovation (Terziovski 2007: 30). In general, trust is difficult to enforce (Hosmer 1995: 391). However, employees who trust their organisation will most likely enjoy working there (Puusa & Tolvanen 2006: 31) and, therefore, might contribute to innovative ideas to a higher extent. In addition, employees need to have a feeling of liberty to try things out and experiment, without asking explicit permission for anything they do (Von Stamm 2008: 476). It is what gives innovation a fertile ground and encourages ideas and suggestions.

In the beginning of each innovation process, it all comes down to ideas and these do arise from employees' creativity. What boosts creativity incredibly is being able to work without the fear of making mistakes (Eberl & Puma 2007: 142). And, even though creativity alone is not a sufficient condition, it is a necessary starting point for innovation (Amabile 1996: 1). Therefore, organisations need to facilitate innovation by creating and maintaining an environment that supports idea generation and creativity (Prajogo & Ahmed 2006: 502) – which is another indicator that freedom seems to be an important cultural value that innovative companies need to emphasize. Furthermore, Prajogo states that minimizing constraints, promoting flexibility, and maintaining an organic-style organisational structure creates the organisational context for innovation (Prajogo & Ahmed 2006: 503).

However, innovations do take time (Eberl & Puma 2007: 50) – you can never force them. And, since it will never work to command innovation, people will always need to be inspired to want to contribute (Von Stamm 2008: 329) to a common aim. Most importantly, the organisational environment for innovation needs to be supportive and it is necessary for management to provide a quality of working life for its employees that serves their needs in terms of overall well-being, skills development, and career paths (Prajogo & Ahmed 2006: 514).

Khazanchi et al. describe innovation supporting values as a very complex, even paradoxical phenomenon, though: they have to provide an overarching frame of reference, helping align employee behaviour with organisational objectives of innovation and meet paradoxical demands for control and flexibility (Khazanchi et al. 2007: 873). According to the authors, flexibility values which stress creativity, change and empowerment better encourage innovation than control values, which encourage efficiency, productivity and stability (Khazanchi et al. 2007: 873). Even though their research project is based on process innovation, their results seem to be more one-sided with a higher contribution of flexibility values to innovation. As a result, the authors state that control values enable flexibility values and their benefits. Flexibility values encourage employee empowerment and creative

freedom. Giving employees stable routines and clear goals, for example, will encourage trust. Therefore, control values must be seen as an enabling potential for flexibility values such as freedom or tolerance (Khazanchi et al. 2007: 881). A second finding of this research though, is that the more managers and employees shared the same values about flexibility the better the performance was.

To sum up, there are certainly many values that can contribute to innovation power. This might even have geographic aspects and vary from country to country. Besides, these values can be very different from company to company and still, it might result in incredible innovations. Comparing Apple Inc. and 3M for example might give astonishing insights. There is a legend going that Steve Jobs, the late CEO of Apple, was a very non-democratic leader who put a lot of pressure and control on his people (Young & Simon 2006: 72). Still, his company is scored one of the most innovative ever. So, what it all comes down to is the assumption that if everyone shares Steve's values – it might work out. Whether a culture is good or bad, right or wrong we cannot judge (Schein 2010: 36). Cultures can be very different and every culture can work under certain circumstances and fail completely under others (Schein 2010: 59).

Despite exceptions such as Steve Jobs, in the literature and as shown in the sources above there seems to be a common understanding that values like freedom, tolerance (towards change, risks, and failures), trust including openness and commitment certainly boost innovation whereas pressure, control mechanisms, and dictatorial leadership prevent from gaining new ideas and encouraging creativity. Therefore, the author argues that trust, freedom, and tolerance are values in organisational culture and leadership, which highly contribute to innovation power.

Of course, leadership is strongly linked to the whole culture of an organisation. Out of the many components a company culture has, leadership is one of the most important (Davila et al. 2006: 259) – leaders are just the most influential persons in establishing company culture (Von Stamm 2008: 475). Or as Klemm puts it: Leaders know in their gut that creativity and innovation are the lifeblood of their organisation (Klemm 2001: 449). In a separate McKinsey survey from 2007, business executives, managers, and professionals of 600 global companies pointed to leadership as the best predictor of innovation performance (Barsh et al. 2008: 39). Selman, too, states that innovation and leadership are closely related (Selman 2002: 1). Therefore, the following will explain some basic elements of leadership and how it can encourage or restrain innovation.

Innovation and leadership

“The difference between success and failure in innovation is leadership.”

Marc Benioff, CEO salesforce.com¹ (Davila et al. 2006: 259)

This quote alone states the important role that leadership and management play in innovative companies. Even though discovery and creative thought cannot be planned by a leader (Klemm

2001: 452), there is scientific proof that innovation management depends on the leadership at the top. The team at the top must want it to happen and trust their people to make it happen (Davila et al. 2006: 13). As always, the way leaders behave sends strong signals to employees. The McKinsey survey from 2007 found that the top two motivators of behaviour to promote innovation are strong leaders who encourage and protect it and top executives who spend their time actively managing and driving it (Barsh et al. 2008: 39). In addition, the orientation toward innovation must come, primarily, from the highest level of management (Amabile 1996: 8), because every innovation requires the support of a manager to survive (Davila et al. 2006: 114). There are cases enough, showing that ideas which challenge the status quo, face an uphill struggle to gain acceptance (Tidd & Bessant 2009: 99) – sometimes just because they are new and things have never been done like this before in the organisation. What is done and how it is done in an organisation is strongly influenced by leaders and managers (Terziowski 2007: 31). Therefore, innovation must not only be fixed as vision and strategy of a company, it must be aligned with the way of leadership an organisation treats its employees with.

Innovation leaders must have the courage to foster a climate of experimentation and permanent change in their organisations to encourage creativity (Deschamps 2008:9). Most naturally, this includes a top management’s acceptance of risk. Especially in the beginning of the process, where the focus is on idea generation, innovation is uncertain and will inevitably involve failures as well as successes (Tidd & Bessant 2009: 102). Failure is one of the best ways to gain experience and it does have a close link to learning (Deschamps 2008: 33). Apparently, the willingness to take the risk of failures is widely recognized as a driver for innovation (Deschamps 2008: 12). In a culture of openness, this would also include being open to mistakes. Employees need to

¹ Salesforce.com is a cloud computing enterprise established only in 2004. It offers sales and marketing business applications for companies of any size and provides these via a server. The customers therefore only pay a monthly fee for downloads and do not need any software installations. Salesforce.com serves approximately two million users today.

know that their ideas are valued and believe that it is safe to express and act on those ideas and to learn from failure (Barsh et al. 2008: 45). Leaders have to tolerate failures and to focus on the learning the individual, the team or the organisation as a whole can gain from it (Von Stamm 2008: 470). The important thing here is that employees should not have the fear to come in for criticism and punishment for mistakes. This just makes a person intellectually immobile – which is fatal for innovation departments (Eberl & Puma 2007: 43). Employees must be given the freedom to act and to develop (Eberl & Puma 2007: 80, 189), otherwise, they cannot come up with creative ideas and their intrinsic motivation to follow such an idea is put on hold immediately. Freedom alone does certainly not lead to innovation automatically, but the appropriate management style does require freedom (Davila et al. 2006: 248). Creative work just depends to a large extent on the leeway provided by leaders, supervisors and managers as a whole (Eberl & Puma 2007: 36). It is about motivating people and about inspiring them to go the extra mile – something that is very often required in innovative projects. Thus, leaders have to find a balance between encouragement and freedom and have to lead very individually.

The ability to inspire people is one of the key characteristics successful innovation leaders have (Von Stamm 2008: 466). Even Napoleon Bonaparte (1769-1821, military and political leader of France and Emperor of the French) understood that in the early 19th century when he made his impressive military campaign through Europe: "Those who have changed the universe have never done it by changing officials, but always by inspiring the people." (Napoleon Bonaparte (Von Stamm 2008: 465)).

So, inspiration and freedom seem to be two very important elements for innovation that need to be exemplified by leaders in order to make employees strive for peak performance. Whereas Klemm argues that there is a very clear description of creative and innovation leaders – they desire to be creative, believe that there is a creative solution, and expect that they will be the ones to find it (Klemm 2001: 456) –, Von Stamm on the other hand states that innovation leaders do not conform to general expectations (Von Stamm 2008: 469).

Another important and controversial point in innovation is the issue of rewards and incentives. Whereas Klemm points out that workers will try to generate new ideas when they know that management rewards them (Klemm 2001: 455), Barsh et al. clearly state that an environment where people understand that their ideas are valued, trust that it is safe to express those ideas, and oversee risks collectively, together with their managers, can be much more effective than monetary incentives in sustaining innovation (Barsh et al. 2008: 37-47). In addition to that,

Selman sees the focus on the task as essential: innovation leaders are not attempting to 'fix' people or simply solve problems but keep their eye on the intended outcomes or purposes for which they are working (Selman 2002: 6). This is reconfirmed by the discussion that Knowledge @ Wharton opened in 2006 where one participant stated that the persistence in sticking with a goal, but at the same time, remaining flexible is of utmost importance to innovation leaders (Knowledge @ Wharton 2006: 3).

To sum up, there are a number of factors that shape innovation leadership. And, as Klemm puts it: Although leaders cannot create genius where it does not exist, there are many practices that influence creativity and innovation, for better or for worse (Klemm 2001: 454).

2 Discussion: Theoretical background versus reality

Firstly, this article has shown why innovation is so important at all in part one above. In the authors' point of view it is not only essential, but will decide on the ability of a company to survive in the future, especially in developed countries where production facilities and wages are becoming more and more expensive and therefore production processes are becoming inefficient. For developed countries there will be no alternative to innovation. Secondly, the literature review in part one above points out the dependencies between innovations, organisational culture and leadership and shows important cultural key factors to innovation. In this second part, the authors will discuss these aspects from a personal point of view of the main author and give further scientific research insights where appropriate.

Leadership today

From the main author's personal experience, lots of leaders do not really know how to act and behave to encourage innovation. Of course, everybody wants it, but hardly anyone truly enables his or her employees to be creative and feel free and confident to bring in innovative ideas. A McKinsey Global Survey, accomplished in October 2007, confirms this statement as Figure 3 shows. The survey explored how companies approach innovation and what inhibits innovation. To this question, 82% more C-level executives than professionals selected the answer "Do not have enough of the right people for the types of innovation" (40% C-level leaders versus 22% professionals) whereas 150% more professionals than C-level executives claimed "Have the right people, but culture inhibits progress" (12% C-level leaders versus 30% professionals). This is certainly a strong indicator that leaders today often do not know what they need to do to encourage innovation – they just blame it on the talent

of their subordinates who, in turn, feel that they are just not surrounded by an appropriate culture. So, apparently there is a big difference in the perception of the topic.

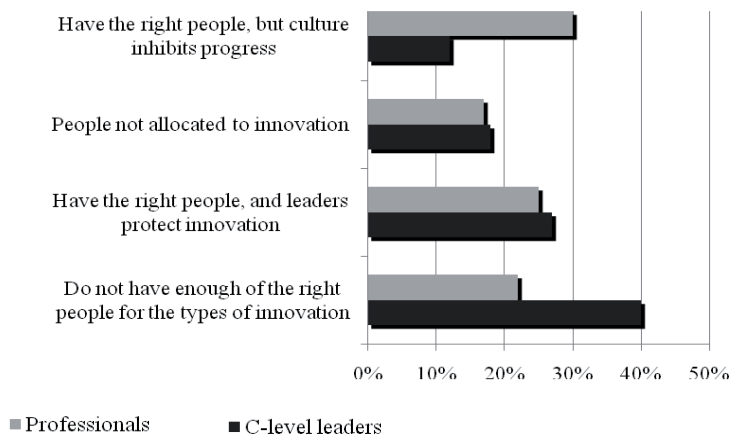


Figure 3 **What inhibits innovation** (Barsh et al. 2008: 46)

However, there might be a big difference in the type of company one is talking about. From the main author's personal experience, smaller companies tend to be more flexible, have a more diverse mixture of employees and therefore are more open to changes and progress. In general, the main author states that professional leadership for innovation as described in part one above are still very rare today. Especially the aspect of shared values such as freedom, tolerance, and trust often gets neglected. Companies write it down in their mission statement, but leadership is not truly centred on these values. Therefore, words and actions are not in line and misunderstanding prevails. To the author's opinion, the topic of shared values is clearly underestimated by today's leaders.

Workplaces and working conditions

A UK survey in 2001 found that over 60% of the British employees believe that they would be more productive and in fact work harder if their work environment was better (Von Stamm 2008: 412). This is not only astonishing, but also alarming. How much more productive, innovative and therefore successful could companies be if only they provided their employees with an appropriate environment? This is a point that the main author also shares from personal experience. A lot

of workplaces do not correspond to what people need to be creative, especially because every one of us has personal and individual needs that might not correspond to a common workplace design. Still, people just get pushed into an office and settled at a desk and what happens is exactly what Eberl and Puma describe: Someone tells them “Now, be innovative.”. But, this is not going to make innovation work.

Another very important point regarding working conditions is the fact that many ideas do not arise when people do their every day job. Figure 4 shows that only 24% of ideas are actually developed within the company buildings. All the rest of them occur in employees’ free time. Psychology and neurology showed that this has to do with the conscious and unconscious distance that employees take to a problem or challenge in their free time (Fueglistaller 2004: 8). This distance enables them to look at their task from a new (or even evident) perspective. Thus, companies have to ensure that people have a balanced working and private life. Long working hours cannot be a long-term solution even if there are a million tasks to be executed. In the end, it only exhausts people, makes them mentally immobile and might even ruin their private life – and, it does not lead to innovation, creativity or new ideas at all. Unfortunately, long-working hours and little time for private life are an everyday-situation in German companies from the author’s experience, especially for mid-level and top-level leaders.

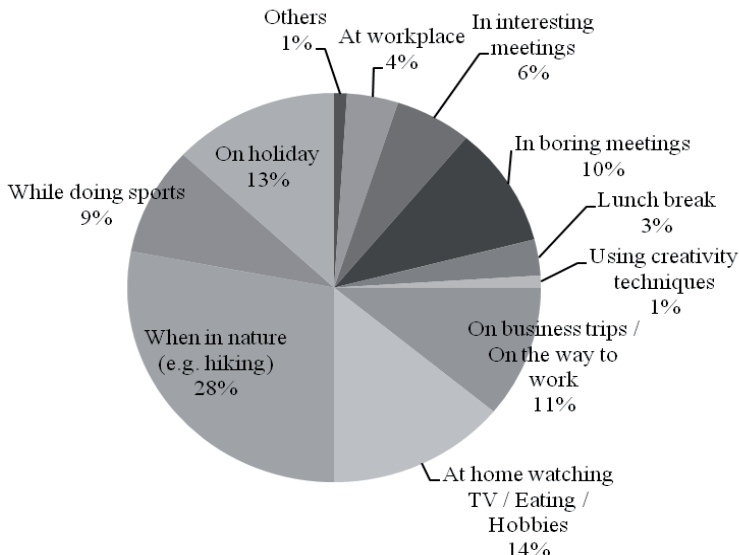


Figure 4 Where ideas arise (Fueglistaller 2004: 9)

In general, it is important that employees are as free as possible to choose what is best for them. Everyone knows best what he or she needs to bring outstanding results in the end. Comet Computer GmbH², for example, lets employees choose their working hours themselves. 66% of their employees do not work full time and any reason for flexible working hours finds acceptance – be it spending time with own children, writing a dissertation or dedicating time to the protection of the environment (Frankfurter Allgemeine Zeitung 2011: 16). Eventually, this pays off: Comet Computer GmbH did not have any problems to cope with the crisis in 2008 / 2009, revenue growth rates are impressive and "motivation is high, everyone works effectively, no one is frustrated" as Sissi Gloss, owner and chief executive officer, states (Frankfurter Allgemeine Zeitung 2011: 16). However, this example is a clear exception for German companies. The main author considers the aspects of appropriate working conditions as a leadership and management task. It is the leader's duty to provide employees with a work place and facilities that enable people to do a great job. If someone underperforms, again, it is the leader's duty to find out why – maybe the employee just does not feel comfortable at the work place or would love to spend more time doing a part-time education programme. Sadly, things like these are often not even recognised or put into question by today's leaders.

Demographic changes

Looking at the demographic trends we have to face in the 21st century, there is one more important point: balance between job and family. With less children being born and more old people who need care, employees find it more important than ever to spend time with their family. In 2010, a research for the German government found that for 90% of young employees between 25 and 39 years with children, a balanced job and family life is just as important as payment (Bundesministerium für Soziales 2010: 6). Figure 5 shows details about this.

Interestingly enough, this is not only an issue for young employees. The same research found that 60% of 40 to 49 year old employees would change their employer for a better balance between families and work (see Figure 6 for details). People at this age very often take care of older family members and therefore need as much flexibility as those with small children. Besides, the false estimation of companies regarding this is alarming: they figured the topic was not of importance for more than 26% of the 40 to 49 year olds. But, these employees do

² Comet Computer GmbH takes a leading position in software documentation as a service for customers. It was founded in 1987, headquarters is situated in Munich and turnover is around three to four millions per year.

still have about 20 years to go before they retire and thus should be clearly kept in mind. Again, we find a big difference in the perceptions of employees and leaders here, which is astonishing and frightening.

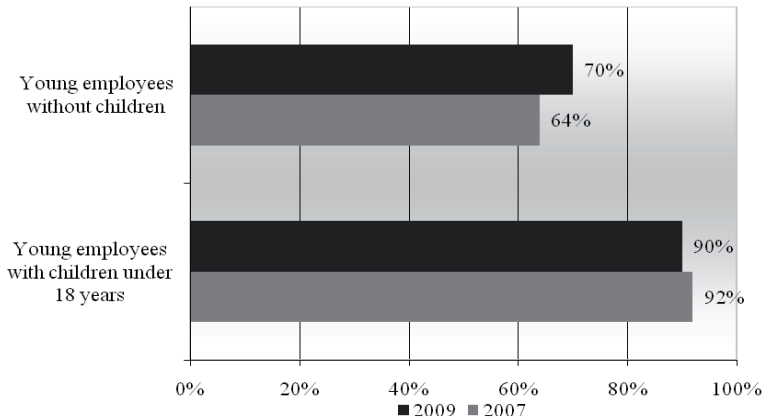


Figure 5 Importance of family friendliness versus payment when choosing an employer (Bundesministerium für Soziales 2010: 6)

(Statement: “When choosing a new employer a balanced family and job life is as important as payment for me.” – The figure shows the percentage of the ratings “fully applies” and “mostly applies”. The difference between 2007 and 2010 is not of statistical significance.)

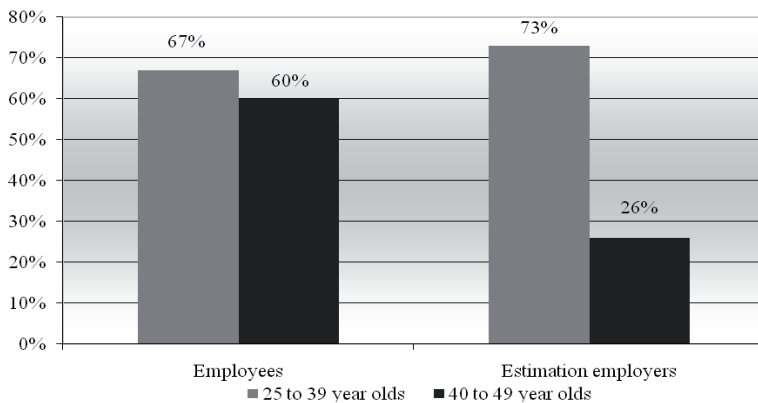


Figure 6 Willingness to change the employer for a better balance of family and job life (Bundesministerium für Soziales 2010: 6)

(Statement: “For a better balance of family and job life I would be willing to change my employer.” – The figure shows the percentage of the ratings “fully applies” and “mostly applies“.)

Regarding demographic changes, the authors see another leadership challenge for developed countries: There will be a lot of age diversity in teams. Leaders will have to deal with many different age generations of employees – 70-year-old people might have to work together with 20 year-olds, so there is 50 years between them! At least, this contributes to diversity – another important success factor for innovation. But, for leaders it means that they will need different leadership styles in one team. Furthermore, they will have the challenge to really bring these people together as a team and make them work on innovative solutions together. This also brings in the topic of communication. For an innovation process, information needs to be shared with others (Eberl & Puma 2007: 80). Innovation is about information, shared knowledge, being up to new developments and trends and success is strongly associated with good information flow and communication (Tidd & Bessant 2009: 114). Thus, it is of utmost importance that, again, a company has a culture full of openness and provides employees with any possibility to exchange views, opinions and latest information. The social networks of a firm are a contributing factor to its innovation capability (Terziovski 2007: 31) and setting up appropriate workplaces and working conditions can encourage these.

Further aspects

An additional aspect to leadership and innovation might be the gender discussion regarding management positions. In most developed countries management is clearly male dominated – a situation that will change sooner or later. It is widely recognized that women are still under-represented in European business, both in number and in status (Desvaux et al. 2007: 4). The McKinsey & Company survey on the topic "Women matter" in 2007 emerged that companies with three or more women in senior management functions score more highly, on average, for each organisational criterion identified than companies with no women at the top (Desvaux et al. 2007: 12) – one of these organisational criteria was innovation. So, maybe leadership for innovation is a female specialty?

Furthermore, the authors see topics such as environmental responsibility, sustainability in company success, growing internationality even of small and mid-sized companies, and corporate social responsibility as leadership tasks that might influence a company's innovation power. In the end, this brings us back to chapter one and the different approaches of organisational culture. All leadership aspects need to be linked to a company's overall culture and vice versa. The best innovation leader will not succeed in a culture that prevents innovation. And, on the other hand the best innovative climate might fail due to inappropriate

leadership. This is why the authors emphasise, that leaders truly need to share the values that (most probably) lead to innovation such as tolerance, freedom, trust, responsibility, and openness.

3 Conclusion

However, it becomes clear that leadership can hardly be limited to innovation. On the contrary, the discussion only opens up many additional aspects and insights – be it gender issues, questions about values and appropriate leadership styles. From the main author's personal experiences, there are many underestimated aspects on the topic as the diverse influencers of working conditions, flexible working hours etc. In addition to that, the authors actually see many more facets such as human resources management, talent management, diversity, or others which are all leadership tasks and do contribute to an innovative climate to one point or another. They can all not be covered in this article, but do play an essential role in the process of innovation. Buijs puts it this way: Innovation is a multi-faceted process and it is full of contradictions – hard and soft, nice and nasty, fun and serious, all at the same time (Buijs 2007: 203). Therefore, leadership demands a great tolerance of ambiguity and paradoxes, and – it is very rare (Buijs 2007: 209).

Leaders certainly must learn how to create an organisational climate where others apply innovative thinking to solve problems and develop new products and services. However, in the authors' point of view this is not only an issue of enabling innovation. In the authors' opinion, many leaders firstly have to learn the basics of leadership. As shown above there are important topics where the perceptions of employees and leaders are very different – be it the importance of a work-life- balance or the cultural atmosphere that contributes to innovation. So, in the authors' opinion, leaders need to know the backgrounds, wishes and needs of their subordinates much better than they apparently do today. This is not necessarily something that must be linked to innovation only. On the contrary, it has to be linked to a whole way of life for leadership.

The authors clearly see this as a responsibility for educational institutions and services, though. How many leaders have really ever learnt to lead? In the authors' opinion, we need to put our education systems into question. Since almost everyone having a leading position has passed a university programme today, there arises the question if these programs really prepare students for a leadership role. In the authors' opinion, they do not. They prepare for all sorts of situations and provide students with many different tools to do a professional market

research or find a mistake in a company's balance sheet. But, they do not prepare students for (innovation) leadership and for contributing to the needed culture. Companies do neither with young professionals. Most of the time, the best team member becomes a leader sooner or later – despite the considerations whether he or she really wants it or is capable of leading people. The best-case scenario then is that the company does a one-time training to start, which is rarely enough.

Thinking of environmental and ethical responsibilities that leaders undoubtedly have (at least they should have), the authors are supporters of something like an official authorisation for leadership. For medical scientists this is an old story: without an official certificate they are not allowed to do their job. In the authors' opinion, something comparable is needed for leaders. Even if they are figuratively not responsible for life or death of a person, they are responsible for the survival of a company. Consequently, jobs, national wealth, and economic growth are lying in their hands. How can we not make sure that these people are appropriately educated for their job?

Thus, to sum up, there are a lot of additional aspects that might need consideration regarding this topic. Moreover, all the theoretical aspects treated with in this article need empirical testing. Finally, leadership and especially leadership for innovation is a topic that certainly is worth more scientific and empirical research.

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