



New Challenges of Economic and Business Development – 2013

May 9 - 11, 2013, Riga, University of Latvia

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New Challenges of Economic and Business Development – 2013

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COMPARATIVE ANALYSIS OF GMO RISK PERCEPTION GAP BETWEEN EU CONSUMERS AND LATVIAN EXPERTS INVOLVED IN GMO DECISION MAKING PROCESS

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The purpose of this research is to make comparative analysis of genetically modified organisms' (GMO) risk perception gap between EU consumers and EU experts involved in GMO decision making process. This study finds out main reasons and outlines main factors associated with risk perception of GMO. The paper provides information on opinion and risks perception of EU experts involved at decision making process, summarizes the main factors that influence EU consumers' risk perception towards GMO: health and safety aspects, impact on environment, social economic considerations, public knowledge and attitude, the role of media and stakeholders, confidence in the institutions responsible for decision-making and ethical concerns. According information and data available comparative analysis of GMO risk perception gap between EU consumers and EU experts has been performed. It is based on author's prepared and realised surveys of EU experts, obtained and analysed data. As a result conclusions have been conducted to state differences between risk perceptions among different players in the field of GMO.

Key words: *EU, decision making, GMO, risks assessment, risk perception*

JEL code: D81, D91, I18, O31, Q18

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DETERMINANTS OF SOVEREIGN CREDIT RATINGS – EXAMPLE OF LATVIA

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Countries can borrow from foreign and domestic creditors by issuing bonds, but two countries will rarely pay the same interest, even if they are similar. The usual explanation is that investors demand an additional risk premium, so long-term interest rates vary because countries are perceived to have different probabilities of default or different credit risk.

The paper investigates the determinants of sovereign credit risk ratings of Latvia from 1997 to 2012 assigned by the three leading credit rating agencies, Moody's Investment Service, Fitch and Standard and Poor's. Conducted analysis of sovereign credit ratings, by using first, an alignment and transformation of the rating scales into values and second, ordinary least squares regression, indicates key rating determinants. From the initial number of variables that can be used according to previous studies on the topic, GDP growth rate and unemployment are used in the model to explain actual credit ratings of Latvia in 1997-2012 and predict future ones in 2013-2014. According to the model, long-term foreign currency rating of Latvia is predicted to improve by the end of 2014 from currently assigned rating levels by two notches either by a single credit rating agency or by one notch by two rating agencies, but still being in the lower medium grade category.

Collected data on the changes of the Latvia's credit ratings can be used to forecast the sovereign borrowing costs of Latvia, after joining to euro-zone.

Key words: *credit rating, sovereign debt, GDP, unemployment*

JEL codes: C41, H30

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REGIONAL DEVELOPMENT AND BUSINESS GROWTH SIMULATION PROGRAM – AN APPROPRIATE TOOL FOR CROSS BORDER REGIONAL ANALYSIS

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Research problem. In order to promote regional development and reduce regional disparities not only between the same country but also between regions of different countries, there is necessity for a uniform evaluation methodology and easily usable and understandable tool.

The aim of research. To present and practically apply the Regional development and business growth simulation program on the example of Latvian-Lithuanian cross-border region.

Nowadays as a response to processes of globalisation and regional integration, seeking to be economically active, competitive and do not lose own reputation it is significant to invoke all conceivable measures for economical and social stability assurance and business development promotion in regions for so small countries as Lithuania and Latvia in Baltic Sea region and all Europe-wide. In today's economy no one region, especially small country's region, is not autonomous and functions as an integral part of the larger economic system, directly depending on its constituent entities. The theoretical and practical aspects of cross border regional development are presented in the article. The conceptual view of cross border region, regional development, regional disparities are provided. The specifics of measurement the regional development by the index is provided by the stages of index calculation. The empirical analysis of regional development is done by the help of Regional development and business growth simulation program, which was created on the base of the Latvia-Lithuania Cross Border Cooperation Programme 2007-2013 project "Formation of methodological framework of regional business growth promotion (LT-LV)". The specification and wide range of the use of the Program is presented in the article on the example of Klaipeda-Kurzeme cross border region by the 2008-2011 years. The theoretical and empirical analysis proved that the Regional development and business growth simulation program is an appropriate tool for regional economics analysis.

Keywords: *index, cross-border region, regional development, simulation program*

JEL code: R110

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THE POSSIBILITIES OF INCREASING THE COMPETITIVENESS IN HEALTH CARE INDUSTRY

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The main indicators of the health care industry in Latvia do not show competitive results in comparing with other European countries. What kind of indicators are important in evaluating health care industry's development and market structure, what are the causes and effects, this is essential theme. Topical is to do research on how the theory research of competitiveness and health care company strategy in combining with a health care industry's analysis research can indicate the possibilities of increasing the competitiveness in health care industry in Latvia.

Aim of the research is by doing the research of competitiveness theoretical aspects and health care industry's analysis to indicate the possibilities of increasing the competitiveness in health care industry in Latvia.

In order to achieve the research aim, qualitative and quantitative research methods are used. The competition environment of private health care sector is researched. The factors influencing competitiveness are pointed out.

Main results and findings show the necessity of change in health care industry by focusing on the value for patients. The main health care industry's indicators of Latvia are below the average level of European Union. Latvian private health care companies are taking into consideration only few main indicators influencing the company's competitiveness, but it is important to evaluate factors which are significant for patients. These conditions require companies to think about continuous improvements and development. Private health care companies in Latvia do not have united standards with criteria indicating how to recognize the better services and how to compare them. This can influence the patient flow from the foreign countries to Latvia.

Key words: *competitiveness, companies, strategy, health care, market structure*

JEL code: I110, L190

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IMPLEMENTATION OF “EUROPE 2020” STRATEGY EMPLOYMENT TARGETS IN LATVIA AND EU COUNTRIES

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European Council adopted Europe 2020 Strategy in 2010 taking into consideration long-term challenges. The Strategy that will transform EU and ensure high employment level, productivity and social cohesion in EU. The strategy towards smart, sustainable and inclusive growth is way to improve countries productivity and competitiveness. Objectives of the strategy are expressed in five targets and one of them is employment target. The aim of the paper is to analyse “Europe 2020” strategy employment targets the EU-27 has to reach by 2020, as well as, national employment targets of Latvia. In the given research such methods as the analysis of the literature and advanced papers in the field of employment in EU were used. Reflecting the “Europe 2020” strategy, core focus on jobs. Assessment of challenges under the Employment Policy Guidelines and progress towards the EU headline and national employment rate targets compare to current and projected 2020 rates. In the result of this research key indicators of labour market performance in Latvia have been compared with other EU countries.

Key words: *employment, employment targets, “EU 2020” strategy*

JEL code: E2, E6

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DRINKING WATER QUALITY MANAGEMENT IN LATVIA: INTEGRATIVE AND ADAPTIVE APPROACH

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The paper aims to develop a drinking water quality management model in country comprising integrative and adaptive management principles.

A large part of problems are connected with institutional structure, including the dispersed drinking water quality supervision system, inadequate overall coordination of functions and responsibilities, insufficient capacity of institutions, lack of systematics in drinking water quality supervision. Another problem group is related to communication and collaboration issues: insufficient collaboration between target groups in different levels, inadequate way of information, lack of necessary feedback.

The current research is based on sociological research methods: interview, questionnaire and case study methods, involving respondents from principal target groups: state environmental institutions, water management enterprises, municipalities, experts and population.

The contribution of integrated approach leads to the management model, which involves: integration of various aims (concerning water safety, economic efficiency, social justice, water resource protection), integration of various water resources (surface, and ground waters) and integration of multi water resource users.

Accordingly, the adaptive approach leads to more operative and flexible decisions and solutions, more effective planning, efficient provision of water resource infrastructure, learning from shortcomings and indicating a need for overall environmental assessments and research, as well as, comprehensive environmental communication.

The adaptive water management has an important role for water-based infrastructure systems development, especially in rural municipalities. Besides, the adaptive capacity of principal target groups had been analysed.

Key words: *drinking water management, integrative approach, adaptive approach*

JEL code: Q25

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IMPACT OF CAPITAL STRUCTURE ON PROFITABILITY: A STUDY OF LISTED COMPANIES IN THE BALTIC COUNTRIES

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Capital structure is of particular importance in estimating a company's value; an accurately estimated and selected equity and debt ratio can maximise company value and minimise the price of capital; therefore, this issue is especially significant in the changing conditions of economic development. Profitability ratios show the ability of the company to generate profit and these ratios are used by the company, financial institutions etc. to determine the performance of the company. Previous research on the relationship of capital structure with profitability has discovered that capital structure impacts profitability, but provided mixed results regarding trend (positive/negative relationship). In addition, by investigating the correlation between financial leverage and profitability, it is possible to state which optimal capital structure theory the Baltic listed companies are following. The pecking order theory states that companies prioritise their sources of financing (at first, they prefer to use internal funds, then to borrow and to issue equity as a last resort). The trade-off theory states that an enterprise chooses debt and equity mix by balancing the benefits and costs of debts. The pecking order theory expects a negative relationship and the trade-off theory expects a positive relationship between profitability and leverage.

The main purpose of this study is to analyse and assess the impact of capital structure on profitability. This paper examines the theoretical and empirical determinants of capital structure choice of a company and its correlation to profitability. Analysis is conducted on a sample of 75 listed companies (Baltic Stock Exchange) over the period from 1998 to 2011. The author analyses the relationship of capital structure and several profitability ratios – return on assets (ROA), return on sales (ROS) and return on equity (ROE). In the research paper, the following qualitative and quantitative methods of research are applied: the monographic method, descriptive statistics, regression analysis, correlation analysis, graphical method. The correlations and regression analyses are used to estimate the functions relating to profitability with measures of capital structure.

The results of the study discover a relationship between capital structure and profitability ratios, however, it depends on the business cycle – over the period from 1998 to 2007 the empirical results shows a positive relation, but over the period from 2008 to 2011 stated an inverse relation.

Key words: *capital, debt, equity, profitability*

JEL code: G30, G32

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INFLUENCE OF MACRO-ECONOMIC FACTORS TO THE POST-MERGER INTEGRATION PROCESS OF A NEW FOREIGN ENTITY

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Globalization and internationalization are terms which are used frequently in relation to business activities (Adler N., 2008). Big industries, such as the automotive industry, are spread almost all over the world. Multinational companies became more important and the number of these big players has been increased over the last decades. Multi-national companies often have dozens of business entities spread over many different countries and continents. And this again brings a broad range of different influence factors into the organization a management has to deal with.

The aim of this research is to find out the influence of the macro-economic factors to the success of the (post-merger) integration process of a new foreign business entity to the origin company. Therefore it is necessary to get out the types of macro-economic factors and analyse their importance and influence to the integration process (Gerds J., 2000).

Companies of different countries also have to deal with intercultural differences (Trompenaars F., 1994) and have to be considered in the post-merger integration process. It can be seen that there are three main dimensions of the research project which have to be interlinked: The macro-economic factors, the intercultural dimensions and the (post-merger)-integration process.

The findings in this early stage of the research are, that by integrating a foreign subsidiary into the origin company's organization, two main external dimensions (macro-economic factors, intercultural dimensions) have to be brought into relation to the post-merger integration process to find out how they act together. The research will be done by literature research of these dimensions. These outcomes afterwards will be founded and validated with quantitative data collection by structured interviews. The data gained out of the interviews will be put into a structural equation model to measure their influence to the integration process.

Key words: *multinational companies, macro-economic factors, (post-merger) integration process, intercultural dimensions*

JEL code: O440

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COMPANY COMPETENCIES AND INDIVIDUAL COMPETENCIES IN THE PRISM OF SOCIAL CAPITAL

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In today's business practice, but also in academic research the aspect of competencies has gained remarkable importance. Organizational competencies are not only a central part of the strategy process of a company. Corporate Strategy literature states that sustained competitive advantage comes from the internal resources of a firm (Storey, J., 1995). The utilization of individual competencies is a key target of companies, as it is important in realizing a full return on investment.

The paper analyzes the state-of-the-art of competence theories with a specific recognition to the aspect of social capital. The author argues that company competencies are a contributor to the utilization of individual competencies. First, different approaches for organizational and individual competencies are shown, and afterwards, these aspects are linked to social capital.

In order to achieve the main goal of the underlying work the paper is structured as follows: first, the presentation of the state of the art in the area of competencies, afterwards, the description of the research design in order to prove the main hypothesis. As a result the author concludes with a model showing the key bond between company competencies, individual competencies and social capital.

Having explained that organizational competencies influence the utilization of individual competencies, the paper points out that social capital has a major impact within this process.

With this, the paper contributes to a deeper understanding of the phenomenon of organizational competencies for business managers and scientist. It was based on a literature review and focuses on an abstract of variables being relevant in the defined scope. The findings are valuable to contribute to the utilization of individual competencies especially in the field of social capital which will pay off for industrial companies in long term. This is especially valid in an environment of skilled worker shortage.

Key words: *organizational and individual competencies, social capital, trust, shared values and goals, competitive advantage*

JEL code: L20, D85

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MINIMUM WAGE AS INCOME INEQUALITY REDUCTION TOOL

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Issues on income inequality are widely discussed nowadays, particular in Latvia, where the income inequality indicators are among the highest in European Union. The government may use several tools and support measures to reduce income inequality, such as mass education, progressive tax system, setting a minimum wage. This paper aims at the analysis of minimum wage as a potential income inequality reduction tool – the raise of minimum wage increases the poorest workers' income share thus decreasing differences in wages. The research is based on statistical data analysis.

There is one of the lowest rate of minimum wage in Latvia (384 (PPS) in 2012)(Eurostat). In this respect more important is monthly minimum wage as a proportion of average monthly earnings which, in Latvia, is one of the highest among European Union countries. Moreover, this proportion was increasing over the last five years from 36.2% in 2008 to 43.8% in 2012, while Gini coefficient was decreasing from 37.7% in 2008 to 35.4% in 2011.

However setting relatively too high minimum wage can cause an employment reduction threat – it can limit labour market opportunities for young and low-skilled workers (Economic Policy Reforms, OECD 2012).

Key words: *income inequality, minimum wage, Latvia*

JEL code: E25, J31

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CONSUMER ORIENTED COMPETITIVE ADVANTAGE IMPACT TO COMPANY LONG-TERM BUSINESS DEVELOPMENT

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In times of economy recession, majority of company leaders faced company's structural challenges in order to reduce expenses and maintain sales. Majority of restructuring cuts rapidly went to a company marketing financial and human resources, excluding promotion budgets, which remained commonly ruled by sales managers. Lack of consumer insights upgrade for several recession years made companies strategic competition advantages to orient on internal processes or competition, guided by strict short term economic benefits. The trend was visible for all kind of market players- leader, challengers, followers and niche's rulers. Internal functions and competition oriented competitive advantage strategies are with critically low competitive advantage value for market leaders and market challenger companies. It is necessary to rethink the marketing competitive advantages orientations in order to implement the updated marketing strategy focused on consumer oriented added values. Consumer oriented competitive strategy has power to guide company to more efficient its tactical targets reach and has impact on long-term strategic targets development. The report presents analysis of consumer oriented competitive strategy's impact on long term business development and its role in setting organizational strategic goals for organizations operating in B2C market. Its importance has been emphasized in case study of University of Latvia, actual and striking sample of market leader in its category. In order to determine the possible solutions for changing the competitive strategy of University of Latvia from internal processes and competition orientation to consumer orientation, the Authors have surveyed MBA students of University of Latvia. The authors have determined the required conditions for University of Latvia for changing its competitive advantage to consumer oriented, and based on the research results developed according suggestions.

Key words: *marketing, competitive advantage, University of Latvia, strategic goals*

JEL code: M31

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OVERCOMING COMPARISON PROBLEMS AFTER ADMINISTRATIVE TERRITORIAL REFORM IN LATVIA: MUNICIPALITY BUDGET ANALYSIS

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This research focuses on period from 2001 to 2011, during this time in 2009 Latvia experienced administrative territorial reform. Before that there were more than 500 municipalities (*pagasts*), later – 110 municipalities (*novads*). This reform creates difficulties in analysing long term regional data as before and after reform territorial borders differ. The goal of this paper is to offer methodology how to compare data about rural territories before administrative territorial reform in Latvia and later formed municipalities.

To test accuracy of this method of comparison, data about budgets are used to evaluate which factors influence municipality budget expenditures in different years. As influencing factors are tested expenditures in previous years, budget revenue, number of inhabitants, municipality and parliament elections and others. While assessing data comparison possibilities, calculations are made for full period as well as those periods before and after the reform in such a way analysing variable influence changes and evaluating their strength and stability.

Main novelty of this research is elaborated simple, easy to use system for territory comparison in Latvia before and after administrative territorial reform. It includes also summary of main principles for comparison of territories before and after territorial reform that could be used also for other countries. This method is applied to enable budget expenditure comparison by using panel data methodology and fixed effects models.

Key words: *administrative territorial reform, local budgets, fixed effects models, panel data*

JEL code: H61, C23

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COMPANY VALUE AND EMPLOYEE SATISFACTION: PRIMARY DATA ANALYSIS FOR TESTING THE BASIC HYPOTHESIS “EMPLOYEE SATISFACTION HAS AN IMPACT ON THE LEVEL OF COMPANY VALUE”

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Numerous studies and authors support the idea that there is a link between employee satisfaction and customer satisfaction, leadership, productivity, and financial results. The main hypothesis of the underlying research paper is that “Employee Satisfaction has an Impact on the Level of Company Value”. Based on a deep theoretical research, a secondary data analysis from the United States and a primary data analysis from Germany, the author showed in several publications that there is a dependency between employee satisfaction and financial results, respectively company value. In this primary data analysis the author compared 11 companies which took place at the “Great Place Contest” 2007 and 2009 or only in 2009 regarding their Company Values and “Great Place to Work Scores”. These companies were provided to the author in an anonymous form. The author had no influence on the number of companies the “Great Place to Work Institute” provided to him. The “Great Place to Work Institute” tried to find companies, which attended both contests and also show their financial data in the “Elektronischen Bundesanzeiger”. Thus, the following paper aims to foster these results with some additional primary statistical analysis for testing this hypothesis. For this investigation the author did various types of statistical analyses which seem to confirm the underlying proposition. With different types of correlation analysis the relationship between Δ Equity Value and Δ “Great Place to Work” score was elaborated. A correlation analysis has been conducted on the basis of available data. By regarding the absolute average EBIT and Equity Value of the eleven out of “100 Best Companies” some differences can be pointed out, set in comparison with 30 randomly selected companies and at the end these hypotheses can be tested with a “t-test” or a “Mann-Whitney Test”.

Key words: *employee satisfaction, equity value, correlation analysis, Mann-Whitney, t-test*

JEL code: L20

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LATVIAN HOUSEHOLDS' DEMAND ELASTICITY FOR THE MAIN FOOD GROUPS

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Although the Latvian economy has returned to positive growth path since 2010, in society the problems remain: high long-term unemployment rate and low average level of income. Government's reluctance to reduce VAT for certain food groups can be understood – although this may improve the level of welfare in low-income households, simultaneously it would reduce the social security benefits for the same households. However, as has been shown in other studies, the level of income affects the healthy food consumption and thus also public health, and via this the economic long-run growth, too.

The aim of the study is to identify the food groups whose consumption in households is relatively more sensitive to price fluctuations. The study is based on „ Household Budget Survey 2010” by CSB which contains 3798 Latvia's household survey data. It was calculated three indicators: (1) the households' available income for consumption per equivalent consumers, (2) the average price of product (8 in total) or product groups (7 in total), (3) real consumption of product or product group by equivalent consumer. For each of the product are evaluated two models. The first model is used to estimate elasticity of demand for product dependent on households' available income for consumption. The second, to estimate elasticity of demand dependent on product average prices. Compared both elasticities for the each product it is concluded which have a greater impact on the consumption – changes in the level of income or prices.

Results show that relatively greater impact on consumption has price of fish and fish products, milk, fresh fruits, vegetables and potatoes. Have the political will, these are the product groups that, in the case of reduced VAT could stimulate not only consumption but also promote healthy eating habits.

Key words: *consumption expenditures, food demand elasticity, regression analysis, household survey*

JEL code: D12, H31, Q11

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THE PROBLEMS OF THE INVESTMENT UNDERSTANDING AND ATTRACTION THAT DEPENDS ON DIFFERENT LEVELS OF ECONOMIC ANALYSIS (LATVIAN EXAMPLE)

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Capital formation process, which in its turn is provided by investment, is one of today's economic development and countries competitiveness determinants. Investment in diverse forms and the different theoretical classifications can often cause problems for potential investors in choosing the most appropriate way for their purposes. This is largely due to the different interpretations of the essence of investment as such, the used sources of information and levels of economic analysis – international, national, company or individual. This has been taken as the basis for setting **the goal of the research** – to find the methodological basis of the use of the investment concept and evaluate investment attraction problems in different levels of economic analysis. The primary objective for achieving the goal is to identify the different levels of economic analysis and then describe in detail the theoretical and methodological basis of investment concept. The practical approbation of the ideas of theoretical study has been performed analysing the opportunities of Latvian investment attraction and the identified problems based on the information of different economic analysis levels. As a result of the research the authors have put forward some recommendations to prevent problems of Latvian investment environment and attraction. The structure of the article has been made in accordance with the objectives. In the research the authors have used bibliographic and teleological methods for gathering the scientific research and regulatory requirements, statistic methods – for empirical research performance and economic analysis methods for interpretation of the results.

Key words: *capital, financial investment, not financial investment, stock market, balance of payments*

JEL code: E22, E44, F21, O16

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New Challenges of Economic and Business Development – 2013

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INVESTING IN SKILLS – THE ROLE OF PUBLIC ADMINISTRATIONS IN RETHINKING EDUCATION

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Skills development for improved employability is one of the key areas in European education policy. This requires flexible and innovative approaches. At the same time, the traditional hierarchic education and training systems with respective institutional mechanisms frequently do not allow for the needed flexibility. This together with some long established traditional attitudes often prevents the learners from following optimal routes in their education and skills development. For this reasons efforts should be made to diminish barriers between the various education domains and levels to promote permeability in education. The research is aimed at studying the attitudes of relevant stakeholders in education and research towards closer co-operation for training of ‘innovation capable’ labour force, as well as towards possible change of institutional approaches to diminish the institutional barriers for a more effective training of skilled labour force. To carry out the research textual analysis on current policy and academic discourse has been performed complemented by empirical data analysis. The empirical data and respective analysis refer to the opinions of relevant stakeholders – public administrators and experts in vocational and higher education, as well in research domain regarding the improved co-operation to promote the training of skilled and innovative labour force. Our analysis shows that traditional values and approaches to the training of labour force still prevail, and the civil service and relevant experts tend to adhere to established routes. Closer links between the higher education and vocational training systems, as well as between the vocational training system and research is not yet being viewed as crucial in the training of a skilled workforce at all levels.

Key words: *skills, training, innovation, public administration*

JEL code: I25, I28, O15, L38

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**THE IMPACT OF EMPLOYER BRANDING
ON EMPLOYEE PERFORMANCE**

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Currently, the focus of Employer Branding research is mainly targeted towards recruiting. However, Employer Branding also entails branding activities to existing employees and former employees.

Purpose. Purpose of the research is to assess the current state of organizations according to the six principles for internal branding suggested by Scott Davis (Davis, Scott, pp. 226-243) and evaluate their impact on the motivation of their employees.

Findings. As findings, a causal model is provided to assess and measure the full impact of employer branding on employee performance and to provide a structure to scientifically assess the value of employee marketing initiatives.

Research limitations. The limitation of the paper is that it is still conceptual and will be empirically tested after the publication.

Value. The research is providing a structure to a part of Employer Branding which has not been paid much attention to yet: the value of Employer Branding to existing employer-employee relationships.

Keywords: *employer branding, marketing-channels, marketing-performance*

JEL code: M12

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THE ROLE OF HUMAN RESOURCES IN THE CORPORATE TRANSFORMATION PROCESS

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It is necessary to create a new organizational corporate design where human resource will play an essential role. The new design that must be undertaken is a reduction in the traditional institutional functionalism to enter greater institutional synergies where each manager must provide leadership and guidance for the entire company or specific project, this implies that we will need a new human resources policy. According to D. H. Pink (2010) it is necessary to develop intrinsic motivation, economic incentives are no longer valid in changing environments where it is necessary to develop innovation and creativity. It is also necessary that companies that succeed give more value to social interaction among workers, invest more in training and encourage communication and cooperation.

Taking this in account we have undertaken an empirical analysis in order to know the degree of integration and satisfaction in the company and predisposition for undertaking a change process. A survey was conducted. The survey was structured in six dimensions and included 370 variables. It is also important to mention that this paper's analysis was based on each individual's perspective and appreciation, not based on third party perspectives.

Some of the previous result is that individual's identification with the company is not as high as individual's identification with the job itself. Clearly, excellent human relations with minimal coordination costs are the result of achieving a dynamic corporate culture within a flat organization. To determine the causal relationships of many of these phenomena's it is necessary to use the multivariate analysis (factorial analysis, cluster analysis, structural analysis, etc.), which will determine the necessary indexes and profiles.

Key words: *humans resources, transformation process, institution*

JEL code: M12, M14

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THE PUBLIC FINANCIAL AIDS FOR THE CREATION OF COMPANIES: THE CHALLENGE OF COMPANIES AND FINANCIAL ENTITIES IN THE CRISIS CONTEXT

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The granting of public financial aids to entrepreneurs responds in many occasions to the incapacity of the entrepreneur to accede to bank financing. The financial institutions limit the credit granted because of the lack of guaranties. The objective of this paper is to analyse the way in which the public financial aids granting, to the companies of recent creation, contributes to the improvement of the efficiency of these entities reinforcing their competitiveness and their capacity to survive in contexts of economic slowing down.

The paper conducts an empirical analysis of a sample of companies of less than 3 years of life, that have accessed to Societies of Reciprocated Guarantee (2.218) and companies that have accessed to the SME Line of the Official Credit Institute – ICO – (10.018). On the other hand, from the data base Analysis System of Iberian Balance we have obtained a control group (7.516), representative of companies that haven't had any financial aids. The definition of these groups allows the application of a contrafactual methodology, whose aim is to detect the possible causal relation existing between the public aids granted and the entrepreneurial achievements, by verifying the existence of significant differences in the variables of efficiency.

Taking into account the variables of efficiency (profitability and productivity) the companies that have received public aids optimized the aid by maintaining a profitability higher than the obtained by the rest. Nevertheless, the evolution of the companies endorsed by Societies of Reciprocated Guarantee is effective during the period that they receive the aid, but, once the funds are amortized, the companies are positioned below the market levels.

These results allow us to affirm that the aids granted by a Society of Reciprocated Guarantee manage to overcome the barriers to gain access to the financing, at the same time that the Official Credit Institute aids, due to the optimal results obtained, do not seem to fulfil this purpose.

Key words: *public financial aids, companies of recent creation, financial endorsement, business competitiveness*

JEL code: M13, G20

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CHALLENGES FACING WOMEN ENTREPRENEURS IN ECONOMIES IN RECESSION. THE SPANISH CASE

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In a period of economic recession the public institutions focus their actions on accelerating the transition from an economy of management to an economy of entrepreneurship. In the latter, it is of extreme utility to analyse the characteristics of the entrepreneurs and the results that their companies achieve, in order to adequate the aid policies to the creation of companies according to their real needs.

This knowledge is currently essential, given the growing participation of the woman in the entrepreneurial activity and the development of the new financial, social and regional policies that intend to encourage the female entrepreneur activity.

The analysis, which proposes a gender approach, is based on the results of a survey conducted in 2009 including 251 answers from a sample of Spanish women entrepreneurs and 357 answers from a sample representing the total of the Spanish business world.

On the one hand, through the statistical techniques for the analysis of questionnaires we search for evidence on the female entrepreneur activity engaged in a business strategy based on the opportunities of the market or the development of product policies / innovative processes generating competitive advantages. In particular, we emphasise the technological effort and the existence of cooperation agreements in the field of innovation with companies and other agents. We take into consideration variables of demographic, sectorial, psychological, environmental, organisational kind as well as variables of influence on the public policies.

The characteristics of the woman entrepreneur that are deduced from the analysis suggest the need for a bigger effort and an equilibrated action of the public institutions in order to involve the entrepreneur women in innovative activities that reinforce the global competitive environment (policies of stimulation of I+D+i, of technological cooperation, of product design, of reinforcement of the sectorial and territorial clusters etc.) and boost the development of entrepreneur women, creative and Schumpeterian, indispensable for the progress of the entrepreneurial fabric and the national economy.

Key words: *woman; entrepreneurial factors, innovation, public aids*

JEL code: L26, M13

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TENDANCES DANS L'EVOLUTION DES PME EN ROUMANIE

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Les PME jouent un rôle très important dans le vie d'une communauté locale. D'une perspective stratégique, les PME deviennent un instrument du management local pour la création de nouveaux emplois. L'analyse rendra compte des exigences du développement durable. Par leur mobilité et leur flexibilité, les PME ont la capacité d'engendre une forte influence sur la manière dans laquelle le processus de production s'adaptent aux exigences du marché.

La situation économique mondiale, ainsi le phénomène d'interdépendance des économies nationales ont déterminé l'apparition du phénomène de contagion financière et économique des crises de système. Les crises des systèmes sont des crises économiques, financières, sociales et politiques. Dans la Roumanie a eu lieu une superposition d'une crise locale avec une crise globale. Dans ce sens les PME ont été affecté en ce qui concerne la stratégie de développement, les rentabilités économiques et financières.

La stratégie Europe 2020 oblige les PME de s'adapter de point de vue de la croissance et du développement, de l'emploi, de l'éducation et de la recherche etc. Le rapport va identifier quelles sont les voies de suivre par le PME pour obtenir un management performant.

Key words: *PME, management, développement durable, crise locale, crise globale*

JEL code: E26, O12

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THE NEED TO ELIMINATE THE CONSEQUENCES OF THE FINANCIAL CRISIS WITH MEASURES ACTIVE AT EUROPEAN LEVEL IN ORDER TO ERADICATE YOUTH UNEMPLOYMENT

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Consequences of the financial crisis continues to affect growth and employment in the EU work, although growth is expected to recover gradually in early 2013. Given the pace of weakening economic activity, the unemployment rate for 2013 will reach a maximum of 10.9%. Unemployment among young people aged 15-24 in the EU increased by 50% since the beginning of the crisis, from an average of 15% in February 2008 to 22.5% in July 2012. EU Youth Strategy aims to create more opportunities and better jobs for young people and promote active citizenship, social inclusion and solidarity. With them are concerned and active measures such as new program for education, training and youth, Erasmus for all proposed for the period 2014-2020, will be in the center of the new EU strategy for youth. This program provides a significant increase in funding, which would allow a total of about 5 million people to receive EU grants for education, training or volunteering abroad – almost twice as many by the number present in the programs 2007-2013. This study presents an analysis of these measures and their impact on reducing youth unemployment. Europe must continue a combination of fiscal policies with reliable structural reforms in order to create the conditions for sustainable growth to reduce current levels unacceptably high unemployment, especially among youth.

Key words: *youth unemployment, active citizenship, social inclusion, solidarity, grant program, “Erasmus for all”*

JEL code: K00

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AUDIT QUALITY ASPECTS OF COOPERATION BETWEEN CERTIFIED AUDITOR AND ENTITY

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Due to the recent economic crisis experienced by Latvia, Europe and in global level there is a significant uncertainty for the future of the national and global economic trends and future developments. Increasingly, entrepreneurs and investors have to take important business decisions with significant uncertainty and in risk conditions. Consequently, more and more important role is reserved for reliable information, including financial information. One of the ways to increase the credibility of financial information, such as financial reporting reliability of business, is revision of financial statements.

International Federation of Accountants (IFAC) has issued an International quality control standard and International revision standards that prescribe the requirements that the auditors must fulfil to obtain a reasonable assurance about whether the financial statements in general are free of significant non-compliances caused by mistakes or fraud. The requirements of international auditing standards in general define the measures and procedures that the auditor must follow by establishing appropriate internal systems and procedures for the audit practices and in the process of audits. However, an essential part of the issues are left to the competence of auditor and the solutions are based on each auditors' professional judgment.

Audits in the market conditions, when the audit clients want to minimize the costs, including the cost of the audit services, is a great challenge for audit practices to determine payment for audit services that meet the expectations of the client and in the same time allowing to perform appropriate audits in accordance with International Standards on Auditing, as well as getting profits. This situation makes the existing auditing practices to review the principles of the current fees setting for the audit services as well as reviewing existing principles of the audit process. To ensure that the audit practices towards sustainable development and growth, audit firms have to make qualitative changes in making the audits more effective and efficient and improving the communication with the clients at the same time being fully compliant with the requirements sent by the International Standards on Auditing.

In the course of work the authors analyse the most important factors that influence the auditors and audit clients co-operation and mutual communication, the scope and type of the provided audit services and the quality of the provided audit services.

Challenges and development of the audit profession in Latvia, together with the use of auditing standards, is closely connected to economic development, political changes and regulation of laws in the country.

The effective functioning, analysis and return of an external audit for a Normal and Small; Medium-size enterprises and the purpose of having a collaboration with Certificated Auditor for an Entity in the Republic of Latvia of year 2012.

Key words: *external audit, international standards on auditing, international quality control standard, audit quality aspects, audit market in Latvia*

JEL code: M40, M42, M48

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MIGRATION OF HUMAN RESOURCES IN EUROPE – AN EXPENSIVE PROCESS FOR THE ROMANIAN ECONOMY

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The economic and social development of Romania in the last twenty years has been marked by a growing decrease in the national economic potential and, as a consequence, a decrease in the income of a large part of the population. In the same time with the global labour market liberalization, this economic status determined a large number of Romanians to look for work in a series of more developed European countries.

Our country has quite a high level of emigration, which implies serious problems at different levels (especially economic, social and demographical). Of course, in these circumstances, we should analyse the meaning of the concepts used to describe this process, its causes and consequences, and we should focus mainly on possible solutions to reduce its negative consequences.

The analysis of reference sources has allowed us to look more at the permanent concern about a process which was extended in large geographic areas and to find some authors and their similar or different opinions with respect to the migration of human resources.

The opinions presented in this paper result from both our documentation and the analysis and interpretation of some findings of a study we conducted last year, in the Bucharest University of Economic Studies. Although some quantitative research methods were used after processing a questionnaire, most of our results represent a qualitative study, based on the interpretation of some opinions of our students.

Key words: *human resources, migration, expertise, human resource management, career*

JEL code: L25

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MARKETING STRATEGY DEVELOPMENT FOR HYDROGEN IN ENERGETICS IMPLEMENTATION PERSPECTIVES IN LATVIA

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Hydrogen energy in recent years is developing rapidly all around the world. The promotion and implementation of the product (hydrogen in energetics) is one of the most important topics for marketing theory and practice development. Product introduction to the world is encouraged by adapting various marketing strategies, depending on target audience and/or country energy sector specifics and other. Hydrogen in energetics from a scientific point of view in Latvia is being studied mostly by exact sciences and the need for marketing has not been evaluated yet, thus the research in this area has been relatively low. From previous studies of authors, it has been shown that the Latvian society knowledge about hydrogen energy is weak (Dimants et.al. 2011, Sloka et.al. 2012) and it is one of the reasons why the necessity of the marketing concept for hydrogen in energetics implementation has emerged. By using theoretical framework and the practical experience of other countries, authors have developed a marketing concept which is prepared as a basis for marketing strategy for the implementation of hydrogen in energetic in Latvia.

The concept consists of four elements: introduction, research, communication and cooperation. The most important aspects of hydrogen energy introduction are the development of technology, infrastructure adaptation and construction. Most important aspects of the research are social studies and technology (incl. materials) research. Most important aspects of the communication are science communication with society and public education issues. Collaboration is recognized as one of the most important elements – this element currently gains increasing attention. Key aspects of that includes partnership development between the various levels of legal persons.

Key words: *marketing, renewable energy, hydrogen energy*

JEL code: M31

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THE SIGNIFICANCE OF EU STRUCTURAL FUNDS FOR POLISH ENTERPRISES: THE CASE OF LODZ REGION

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In order to remove the regional economic disparities, the European Union realizes cohesion policy, with structural funds as a main financial instrument. Their spending is based on specified principles and it is perceived within certain assumed goals. They are meant, among others, to support the development of innovation of regional economies, owing to the investments in science, knowledge, technology, human capital and fixed assets.

The results of this policy were evaluated in numerous empirical studies. In general they confirmed that in Poland structural funds contributed to the economic growth and to the lower level of unemployment, however their impact on removing of economic, social and territorial disparities was slight or even negative.

Since 2004 the programs for companies co-financed from the EU funds have been rising in importance. The subsidies were directed at different branches of economy, supporting, among others, investments in fixed assets, implementation of innovations, internationalization of economic activity and the development of human resources.

The paper is based on the results of a direct study, statistical data and evaluation reports as well as economic literature. Its aim is to evaluate the role played by the EU structural funds in the development of enterprises in the Lodz Region.

The study was conducted in the period 2011-2012. It was focused on micro-economic projects supported by the EU money in the region of Lodz. The interviews were conducted with representatives of 80 enterprises, which had previously completed at least one such a project.

Key words: *EU structural funds, regional development, enterprises*

JEL code: O12

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EVENTUAL DEVELOPMENT AND ECONOMIC CLIMATE IN THE EU AND LATVIA

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The purpose of this research is to analyse the main problems of the economic eventual development and economic climate of the EU countries and Latvia in the context of integration and globalisation process. This study aim is to estimate and to compare economic climate in the Baltic and other leading EU countries. The main emphasis is on the economies of the three Baltic states. The strategic goals of the EU are discussed as well as are the development challenges and models for Latvia. The research methodology utilised is based on macro-economic theory. In accord with macro-economic theory, it is important to distinguish between *Policy Variables* (or instruments of fiscal and monetary policy), *External Variables* (or variables outside the macro-economic system and international trade) and *Induced Variables* (e.g.: output, inflation, unemployment). This research investigates all three categories of variable factors. Policy Variables and External Variables are *inputs* that affect the economy, whereas Induced Variables are *outputs* produced by the economy. A major focus in this study is devoted to Economic Climate analysis in the EU countries, but especially in Latvia. This research contain information about various different indexes and the main results and conclusions reflect the overall situation in EU countries. The discussion consists of three parts: 1. Economic climate in Latvia and EU countries; 2. EU 2020 goals and the strategy of Latvia; 3. Stages in the economic development of Latvia. The analysis of the stages in the economic development of Latvia is based on a study of strategic documents and on a variety of indexes.

Key words: *economic challenges, development strategies, indexes, economic climate*

JEL code: E20, E66, O11

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EUROPEAN SOCIAL MODEL AND THE SOCIAL MODEL OF LATVIA

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The topicality of the research subject: This article aims to discuss the concept of the European Social Model and situation in Latvia after joining the European Union. European social model is the background for the European welfare and includes democracy and individual rights, social protection and solidarity, free collective bargaining, market economy and equal opportunities for all. The European social model is considered to be unique in its dual focus on both economic and social principles.

Much debate in academic and political circles has taken place whether it is possible to talk of a single European Social Model. Different European states focus on different aspects of the model; it has been argued that there are four distinct social models in Europe: the Anglo-Saxon, Mediterranean, Continental and the Nordic social model. In the paper the author analyses and deconstructs the concept in order to identify the main understandings and the various dimensions of the model.

The European Social Model is an example for the rest of the world based on social justice and solidarity, where economic and social advancement take equal priority and where decent work and social protection combat poverty and social exclusion. Distinct in Europe through common traits, Latvia encompass the fifth Submodel of the European Social model.

Research tasks and objectives: The aim of the paper is research and analyses of the conditions of European Social Model.

In order to achieve the above mentioned aim, the author has the following tasks:

- to describe European Social Models: the Anglo-Saxon, Mediterranean, Continental and the Nordic social model;
- to analyse and research Latvian Social Model;
- to make forecasts and define the main research results.

Research methods: In order to achieve the established aim and tasks, the following scientific research methods have been used in work: analytical method, comparative method, historical method, logically and abstractedly constructive method.

- The analytical method is employed for research of the European Social Models and Latvian Social Model, economic and social factors' influence on Latvian social model, as well to analyse and study the laws and human rights covering social security.
- The author uses the comparative method for several assignments: analysis of the social security systems of the European Union, study of the Latvian legislation regulating social security and inclusion system in the context of EU regulations, and others. It is necessary to recognize and comprehend the historical and political circumstances and law comprehension tendencies that existed during the formation of the Latvian Social Model, therefore the historical method is made use of as well.
- The logically and abstractedly constructive method is employed in order to make forecasts and define the main research results – the conditions of ensuring Latvian Social Model that have been detected by the author during the research.

Key words: *social model, social policy, welfare economics*

JEL code: M38, I38, H55

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CORPORATE GOVERNANCE IN ALPINE CLUBS: RESEARCH ON UMBRELLA ASSOCIATIONS

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Corporate Governance is a “system by which companies are directed and controlled” (Cadbury 1992). This topic came into the field of high interest because of many worldwide crashes of corporations. The origin of this idea is to find in the for-profit area but there exist already some researches to transfer this idea to non-profit organizations.

The challenge to transfer the idea of corporate governance to non-profit organizations is their distinctive features. The chosen research field to transfer the idea is Alpine Clubs in Europe. These clubs face the challenges of the legal framework as associations. Alpine Clubs consist of an umbrella associations as well as a certain number of legally independent branches, called sections. All organizations are guided by voluntary boards. Latter is very different from the idea of corporate governance for example in Germany and Austria where the two-tier model comprising an executive and a supervisory board is obligated.

The empirical research is designed as qualitative explorative study by using expert interviews. Experts within this study are the presidents of the umbrella associations, the paid managers of the head offices and the chairmen of the sections. The main results are according the research hypothesis to find out the specialties of the governing systems in the different levels of the organization. Which critical performance factors influence the system of existing small, middle-sized and large sections. Who is there to examine the performance. How can stakeholders be integrated in the governance system in the umbrella association as well as the sections.

This research adds value to science by proving the practicability of the idea of Corporate Governance within the field of non-profit-organizations. The ideas are tested within the field of Alpine Clubs but are transferrable to all organizations with similar structures and governance systems.

Keywords: *corporate governance, non-profit organization, voluntary board*

JEL code: L31

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SUSTAINABILITY ACCOUNTING: A SUCCESS FACTOR IN CORPORATE SUSTAINABILITY STRATEGY

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Over the past decade the requirements of sustainability were involved into the strategy of many companies. Besides the economic goals they also determine the exemplary social as well as environmental considerations. However, as several empirical researches show that their environmental and social performance only slowly improves. Therefore the application of the appropriate management methods and tools are needed to measure of the economic, social and environmental impacts of the strategic decisions and activities within the organization.

The aim of this paper is to study the interaction between the sustainability strategy and sustainability accounting as its key success factor. First, it starts from the conceptual definition of the sustainability and process of the sustainability strategic management. Then, the article introduces the new approaches for the appraisal of the strategic performance beginning with the conventional accounting, through the environmental accounting, to the sustainability accounting. Finally, relating to this a case study demonstrates the role and contribution of the sustainability accounting to the successful implementation of the sustainability strategy in a Hungarian company.

Key words: *corporate sustainability, sustainability strategic management, sustainability accounting*

JEL code: M21, M41, Q56

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New Challenges of Economic and Business Development – 2013

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PARTNER SELECTION PROCESS IN FRANCHISING

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Franchising has developed into a major expansion strategy for different types of businesses, covering many business branches, mostly services. A franchising network is built on strong partners and a structured headquarters planning. The problem discussion in this paper is finding the right partners. This task consists of a major challenge for many businesses in the past and present, and also for companies in the franchisor sector. Adequate selection allows for smooth and mutually benefitting relations, which usually turn into profitable and lasting alliances. Contrary to the right personnel decision, wrong decisions often arise from less strategic processes, and quick and unwisely taken decisions by the franchisor, due to lack of understanding or also lack of standardization in place. The aim of this research is to support decision making in order to trigger higher potential future outcomes in regards to franchising. This analysis plays an important role in the quest for improving selection processes and amendments for existing selection processes. The method used in this paper is comparing a collection of current articles describing international selection processes. Different industries and distinct companies reveal different criteria and strategies. The time frame of the studies compared in this article starts in the 1990s up until today. As result, the author concludes from the analysis that depending on the businesses studied, also country differences and company strategies play a vital role.

Key words: *franchising, selection process, partner search*

JEL code: M16

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CRM SUCCESS FACTORS

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A Customer Relationship Management (CRM) system in contrast primarily focuses on external parameters and supplies “the adequate technological basis for distributing information about customers more efficiently and systematically in the enterprise organization and towards the customer” (Moedritscher and Mussnig, 2005, p. 368). While the Analytical CRM provides data and analyses on customer contacts and reactions, a Functional CRM manages all applications which are relevant for the direct customer interaction (Moedritscher and Mussnig, 2005).

Dong and Zhu (2003) has found out that an on-going relationship with customers will help to increase firm value. He has shown that firms dealing extensively with its customers do have a higher firm value than firms that do not care about its customers (Dong and Zhu, 2003, p. 2 ff.).

Research on the organizational parameters affecting CRM has so far mostly focused on resource adequacy, complexity of the products, measurability as well as firm and task characteristics (Agarwal and Ramaswami, 1993). Especially task programmability in terms of procedural knowledge and the measurability of outcome and behaviour has received substantial researchers’ attention (Baldauf et al., 2005). Thus, extending the scope of empirical research on CRM, the paper will assess the interplay with organizational culture, organizational centralization, and also environmental parameters.

While there are multiple dimensions, facets, and concepts of CRM, only a limited set can be evaluated in this paper.

Key words: *customer relationship management, cultural dimension, inter-organizational business, firm-level*

JEL code: FMY0

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New Challenges of Economic and Business Development – 2013

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NEW MODEL OF QUALITY DEVELOPMENT IN AUDITING COMPANIES

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At the beginning of the century the public balance scandals led to an international discussion over the quality of audits. The work of the statutory auditor viewed with increasing distrust, so the legislative responded with new laws and directives to raise quality in audits.

Aim of the research is to prove if there is a standardized understanding of quality in the profession of auditors.

After analysing important aspects in quality theories according to business administrations, service quality and quality in audits it was clarified that no single area of business economics offers a uniform definition or approach to the term “quality”. Neither the profession of auditors, nor the legislative which passes new laws and regulations stating “by this, a higher quality will be reached”, have a uniform view of quality. However, this is absolutely necessary for a uniform and broad understanding of quality, because quality in audits must be more than “to do our jobs rightly”. (cf. Pfitzer, 2006, 187 p.)

For this reason, the author developed a “**New model of quality development of auditing companies**”, named the **AuditCompanies-QualityDevelopment-Model (AC-QD-Model)**. To fulfil all the expectations of the different receivers of audit services, all legal and professional requirements as well as one’s own expectations, a model of audit quality has to be developed, that is very broad. As the term also needs to take into account the regulations mandated by law and by professionals, it must consider aspects of product-based, of manufacturing-based and user-based approaches (cf. Garvin, 1988, 319 p.)

Expert Interviews have been conducted to support the theoretical approach and literature review.

In this paper the author will present all components of this new model and the possibility for the companies to design their individual quality model. Additionally the results of his research concerning the understanding of quality by auditors and in auditing companies focussing on small and medium-sized auditing companies will be shown.

Key words: *quality, quality in audits, small and medium-sized auditing companies*

JEL code: M4, M42

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MARKETING COMMUNICATION 2.0: A DYNAMIC APPROACH FOR THE SERVICE INDUSTRY BASED ON THE CUSTOMER RELATIONSHIP LIFECYCLE

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Successful marketing requires that managers understand that customer relationships with an organization change over time and furthermore, they have to understand how they change (Bolton and Lemon, 1999, p. 171). Hence, marketing for services must become dynamic to be able to cope with the increasing and changing requirements of today's consumers. Especially marketing communication can nowadays be integrated in a dynamic and individual need, based on customers' needs and interests.

Marketing for services is responsible to create an assumption of trust of consumers, help visualize services, should foster recommendations and word of mouth, should reduce uncertainty of new customers and should foster customer care and relationships (Wiesner and Sponholz, 2007, p. 9). Thus, it is necessary to offer customized marketing strategies for different customer segments with different needs. To make successful strategic decisions, companies must accurately access the value of each market segment or even each individual customer (Berger et al. 2002, p. 40). Not only the different needs of different segments are important, but also the changing needs during customer lifetime. An increase of customer retention is often regarded as a strategic corporate goal, but no differentiation regarding customers or customer segments is accomplished. Hence, no profitability orientation exists, because retention strategies are used for profitable as well as unprofitable customers (Georgi, 2005, p. 231 f.). Lifecycle concept is well known from performance in kind, but is also crucial for services and service marketing. The focus of this concept is the assumption, that every performance has a limited lifetime and the selling of this performance underlies a cyclic development over time (Wiesner and Sponholz, 2007, p. 27). Within the lifetime of the customer relationship, characteristic phases can be identified, which represent different states of the relationship from a customer's perspective. Due to the different phases, management tasks for customer retention differ (Stauss, 2011, p. 320).

The following paper gives an overview about an approach to cope with the increasing dynamics of service marketing. With the help of a questionnaire, hotel customers in different customer lifecycle phases are asked for their needs and interests concerning marketing communication to gain insights for the creation of a dynamic communication approach. The new approach takes the different needs and interests of hotel customers during the different lifecycle phases into consideration and offers an alternative to classical customer relationship management measures.

Key words: *service marketing, customer lifetime, dynamic communication approach*

JEL code: M31

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ACTUAL PROBLEMS OF PUBLIC-USE RAILWAY INFRASTRUCTURE DEVELOPMENT MODELLING

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The current work is aimed at studying the actual problems in modelling public-use railway infrastructure development and targeted at existing and emerging methodological approaches for constructing econometric models of a specific public-use railway infrastructure (hereinafter – infrastructure) entity. Sectoral models usually are outside the category of macroeconomic models (Allard C. et al, 2008) but in Latvia's case the impact of railway operation to the national economy is so high that outcomes should be measured also in terms of macroeconomic units. However, infrastructure service statistics are contained at the fourth level of the national accounts system (Latvijas statistikas gadagrāmata, 2011) it is not directly quantifiable and thus calls for methodological solution for evaluation.

The actuality of the second problem examined in the paper is connected to the dissonance between European sectoral regulation, which focuses on Community's infrastructure unification and consolidation, and Latvia's railway infrastructure factual belonging to the former Soviet Union rail area, which was constructed for transit transporting (Быкадоров С.А., 2000) a huge amount of raw material. That means that most income factors are outside the Latvian economy and some comparison instruments should be developed in order to bind European and non-European data.

The research was based on the analysis of the statistical material, observance of existing methodological approaches and surveys of stakeholders' opinions. The following conclusions have been drawn:

- 1) new sectoral statistical evaluation methodologies are needed for successful modelling of infrastructure development.
- 2) evaluation methodologies of non-European sectoral statistical data are needed for a successful modelling of public-use railway infrastructure development.

Therefore, further academic research is needed on how to create and secure a flexible and sustainable infrastructure development model.

Key words: *public-use railway infrastructure, modelling, evaluation of sectoral statistic*

JEL code: H410

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HOME LOAN MARKET SEGMENTATION IN CROSS-SECTION OF DWELLING PURCHASE READINESS

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After the heavy fall in economy 2009 the grave competition in the Latvian market for home loan is a serious challenge to the lucrativeness of retail banking institutions. A common suggestion is that banks ought to respond to this challenge by making better use of market segmentation techniques. The general notion is that banks should concentrate their marketing efforts to serve a particular segment of the retail market. Therefore this paper discusses and presents a new adaptive approach to segmenting a bank's customers who are planning the dwelling purchase.

Purpose – This article demonstrates the application of behavioural segmentation to the retail commercial banking by using home loan market as a case example.

Design/methodology/approach – Data were gathered through self-administered questionnaires. The paper is based on a variety of statistics and on an overview of factors influencing bank selection to home loan obtaining and usefulness of the information provided by different sources. Two sets of variables were used to profile market segments.

Findings – Study results indicate that there are statistically significant differences between purchase-planning and purchase-not-planning bank customers in their assessment of the relative importance of criteria considered in bank selecting and information sources used for this aim.

Originality/value – More concentrated and focused on the several positions marketing strategies are recommended to reach better commercial banks' performance.

Key words: *home loan, marketing, segmentation, commercial banks*

JEL code: M31, C12, G21

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New Challenges of Economic and Business Development – 2013

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MEASURING INNOVATIVE PERFORMANCE

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Nowadays innovation is the main driver towards prosperity and growth. Europe has a long tradition of excellence in research and innovation, and each Member State has its own research and innovation policies and programs. The support and development of innovation performance is one of the priority tasks for the government of Latvia. EU targets within the Europe 2020 strategy for sustainable growth include combined public and private investment levels to reach 3% of EU's GDP as well as better conditions for R&D and Innovation. Latvia has made some progress towards the Europe 2020 target indicators, but there is still place for improvement in a significant number of areas as Latvian innovation rate is still below EU's average.

European Commission declares a need to produce an indicator to measure Europe's progress towards a more innovative economy. The indicator will measure the strategy's progress and aim to capture overall research and innovation performance and reasons why it differs between member states. An important aspect of the indicator is that it should allow comparability on the global level.

Latvia should consider the applicability of new Innovation Indicator. The paper **aims** to discuss the elements of the new proposed definition of 'high-growth enterprises' and to examine the usability of the new proposed method of calculating Europe 2020 Innovation Indicator in case of Latvia.

Business register of the Central Statistical Bureau (CSB) of Latvia keeps all the necessary information to carry out identification and calculation of 'high-growth enterprises' by the required criteria. Starting with 2002 the CSB participates in the Community Innovation Survey that is a sample survey which does not cover all enterprises. According to the Europe 2020 Innovation Indicator methodology, all sectors of the business economy, excluding financial sectors, are considered. Business Register of the CSB gives the possibility to select enterprises from all sectors of the business economy listed in the new methodology. Nevertheless, the CSB considers surveying enterprises within all required sectors to be useless as in Latvia not all these sectors are significantly innovative.

Key words: *Europe 2020 strategy, high-growth enterprises, Community Innovation Survey, Innovation Indicator, methodology*

JEL codes: C0, C13, O31

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CHALLENGES OF THE SPIRAL METHODOLOGY FOR WELL-BEING STUDIES

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Well-being is an ancient issue: all societies are trying to find the best possible solution for community well-being. The *SPIRAL* methodology recently developed by the experts from Council of Europe under supervision and inspiration of Samuel Thirion and approved in different European municipalities is representing a subjective position in researching the well-being of society which answers to the question: “What is your feeling about well-being?”. As a direct result of the Council of Europe’s social cohesion strategy, the *SPIRAL* methodology is different from other participatory methodologies: it is entirely open and systematised.

The aim of the paper is to discuss the experience of practical applications and results of the *SPIRAL* methodology, explore advantages and challenges.

Research methods used: scientific literature studies, several stages of focus group discussions of 25 homogenous groups in Salaspils municipality, statistical data analysis, *SPIRAL* methodology.

The main results and findings of the paper – the *SPIRAL* methodology could be the common basis of fundamental values, for evaluation of society’s progress towards improved capacity to ensure the well-being through the development of co-responsibility in society, for example, in municipality. It is extremely important to ensure the reliability of obtained results as the well-being indicators could be further used in design and preparation of development and social policies of the municipality.

The research is conducted in research group involving also Ināra Kantāne, Agnese Vaivade, Sandra Vaivade, Hermanis Rullis, Justs Dimants, Ksenija Ijevļeva, Evija Rūsīte, Jūlija Vladimirova, Iluta Skrūzkalne, Anete Pujāte, Agate Zaķe and Kristina Galihanova.

Key words: *well-being, SPIRAL methodology, well-being indicators, co-responsibility*

JEL code: I38, H75, D78, D63, C88

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EVOLUTIONARY PSYCHOLOGY AS A PARADIGM FOR UNSUSTAINABLE BEHAVIOUR INTERPRETATIONS

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Human health and environment quality dependence on sustainability of human mind & behaviour represents itself an argument for relevant psychological research. Contemporary psychology performs mind research in an interdisciplinary way however cognitive role of certain disciplines & schools is still underestimated; an example: evolutionary psychology (EP) – paradigmatic approach interpreting human mind as being designed by Darwinian evolution. More specifically, EP perceives human psychological traits as rigid adaptations to human ancestral environment; accordingly, unsustainability of modern human behaviour could be explained at great extent by mutual incompatibility between qualities of contemporary and prehistoric environments.

Despite of EP's cognitive achievements it is often still rejected due to ethical (public manipulation), emotional / religious (humans as just biological machines) and scientific (determinism, reductionism, etc.) considerations. In spite of criticism EP recognitions have been applied to carry out interpretations within various fields of human activity like health, education, military, consumer behaviour, etc. For example, an exaggerated desire for unsustainable shopping and unhealthy fast-food consumption could be explained by sensitivity to super-normal stimuli and by taste preference for foods high in sugar and fat: these traits were adaptive in ancient human environment limited in high quality food resources. Similarly, mental & behavioural qualities like egoism, desire for immediate reward and relative status, unconscious copying the behaviour of others, etc. being adaptive in an ancestral environment lead to destructive environmental and health behaviour in a modern world. Apart from identifying evolutionary roots of unsound behaviour EP proposes suggestions for public sustainable consciousness development through acquiring ancestral archetypes when designing habitat, performing educational & therapeutic activities, etc.

Key words: *evolutionary psychology, adaptive behaviour, ancestral environment*

JEL code: I000

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EVALUATION OF MANAGEMENT COMPETENCES BY MANAGERS IN SMALL COMPANIES IN LATVIA

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Successful management of a company is an essential part of running a small business. The scientific research results have shown that lack of appropriate management skills is one of the main factors that influence small business survival and growth. The majority of small companies are owner-managed; many of owners-managers have good professional skills in the speciality but not enough in business management.

The aim of the paper is to analyse the attitude of small companies' managers of Latvia to management competence – appropriate education, training, skills and experience.

Results of survey of 1188 entrepreneurs of small companies are used for data analysis. Research methods used: academic publications analysis, survey of entrepreneurs. For data processing used methods: descriptive statistics – indicators of central tendency or location and indicators of variability, analysis of variance and cross tabulations.

The study reveals that approximately 12% managers of small companies' had evaluated knowledge about company management as unimportant factor for small business survival and development; there are statistically significant differences in managers' evaluation in regions of Latvia. The main conclusion is that small companies' managers often don't understand the significance of management education, training, skills and experience.

Key words: *small company, management, competence, knowledge, training*

JEL code: M1, M12, M38, R28

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New Challenges of Economic and Business Development – 2013

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BUSINESS ENVIRONMENT FACTORS CONTRIBUTING TO THE DECISION ON THE LOCATION OF A FIRM IN LATVIA

Kristīne Kapusta, University of Latvia, Latvia⁴¹;
Roberts Škapars, University of Latvia, Latvia

Regional development imbalances limit the potential gain of a national economy in general and give a negative impact on an international reputation of the state.

Defining the key elements for a business environment contributing to such differences is an ambiguous issue. Mostly researchers tend to focus on the resulting factors (GDP, economic activity, number of enterprises, etc.), not on the initial ones. According to this report the decision on the location of a firm is treated as a prime factor attributing to the level of the development of the specific region in Latvia if all other factors are believed to be constant in a moment of time.

The main purpose of this report is to go even deeper – namely, to make a research on a list of sub-factors of the business environment contributing to the decision on the location of a firm in Latvia. Different levels of regional competitiveness within a country, its ability to maintain high rates of economic growth and attract investors – those are the results of the specific composition of the business environment.

After statistic data analyse (regression and correlation analyse) and research (study of the literature, expert interview method) on the general elements of the business environment in the world and in Latvia, as well as research on competitiveness elements, this paper reveals some crucial aspects for an average decision on the location of a firm; characterizes the overall set-up and offers a list of suggestions to solve the problem of imbalances.

The scope of the issue of the business environment and its separate factors is broad and multifaceted; this paper presents a brief insight by the author and the corresponding research is aimed to be continued.

Key words: *regions, business environment, firm location*

JEL code: R12

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New Challenges of Economic and Business Development – 2013

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MACROECONOMIC POLICY REGIME IN LATVIA

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This paper has a goal to explore the concept of macroeconomic policy regimes (MPRs) on the one hand and on the other, to analyse the functionality and development of MPRs in emerging countries which are on their way of joining a currency union. MPRs of the Central and Eastern Europe within the framework of the European Union applied to the case of Latvia will be analysed using a normative model of functional MPR which creates the conditions for sustainable economic growth, employment and more equitable income distribution. A macroeconomic policy regime consists of policies (monetary policy, fiscal policy, wage policy, foreign economic policy and industrial policy), the financial sector, and the institutional frameworks in which the economies are embedded. Six elements can thus be differentiated: monetary policy, fiscal policy, wage development/policy, foreign economic policy, industrial policy and the financial sector. Each of these elements has an institutional dimension, while only monetary, fiscal, industrial and foreign economic policy always have a policy dimension. The observations and findings made so far point towards the direction of a dysfunctional development of the MPR in Latvia, causing great instability in the economic development, capital outflow and large employment losses.

This paper is part of my forthcoming doctoral thesis “Macroeconomic Policy Regimes in Central Eastern Europe – Convergence towards the European Monetary Union” and the book “Macroeconomic Policy Regimes in Western Industrial Countries” by Herr/Kazandziska (2011b). I would sincerely like to thank the Hans Böckler Foundation for the financial support.

Key words: *macroeconomic regime, emerging countries’ policies and institutions, current account, industrial policy, Latvia*

JEL code: E02, E58, E61, E65, F41, F43

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New Challenges of Economic and Business Development – 2013

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COMPANY CULTURE INFLUENCE ON PERSONNEL MANAGEMENT IN A BIG COMPANY

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Motivation is the key component of organizational culture. Organizational culture plays a significant role in an organization regarding how people feel about their work, levels of motivation, commitment, and in turn job satisfaction and performance. This research aimed at investigating the relationship that exists between organizational culture and employee commitment and motivational performance in telecommunication sector in Latvia. Telecommunication industry can be defined as both service and high-technologies industry. From this perspective telecommunication industry is viewed as industry which is dealing with high profile knowledge workers therefore there is crucial to clarify greater understanding on knowledge-worker job performance. This environment for the deployment and ownership of intellectual capital provides the potential for competitive advantage. The study revealed that organizational culture has a direct impact on knowledge-workers commitment and motivation. The more energizing, encouraging and inspirational toward growth, the better organized in processes and more people oriented company culture is, the higher level of employees' commitment is expressed. Additionally it was observed that if such organizations develop strong culture on orientation towards performance results and quality, it could lead in increase of employee motivation and performance. Results of extensive surveys on personnel motivation and company culture from telecommunication industry are used for empirical analysis. For evaluation of statements of commitments and job performance evaluation scale of 1 – 7 was used. For survey data analysis indicators of descriptive statistics (indicators of central tendency or location and indicators of variability), cross-tabulations are applied, as well as multivariate data analysis (factor, regression and correlation analysis) is performed.

Key words: *company culture, knowledge – worker, personnel management*

JEL code: M12, M51, L96

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AN EXPLORATORY STUDY OF THE ASSOCIATION OF PROJECT SUCCESS WITH PROJECT CHARACTERISTICS AND ORGANIZATION MATURITY

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Project success has always been an important issue in project management research. There have been pervasive research studies on this topic as well as on exploration of factors affecting project success. The objective of this research study is to identify and ascertain which of the project's attributes affect project success. The study also recognizes the role of organization maturity in achieving the success. Data sample is collected through interviews and self administered questionnaire. Using a sample of 71 project managers and other higher management officials, correlation studies are done. The correlation is investigated between project characteristics and organization maturity with project success. The Pearson Bivariate Correlation method is used to test the significance of the correlation. In order to perform the correlation analysis the SPSS version 20 is used. The results revealed significant negative correlation between project success and higher risks. A negative relation is also found for the higher complexity level and long duration of the project. No significant relation is found between project success and project budget, technicality involved and prior knowledge of the potential risks. On the other hand the organization maturity is found to have a significant positive relationship with project success.

This study identifies the importance of project related factors and organization maturity for achieving project success. It is suggested that the organizations should address the project related factors during the planning phase of their project. They should focus on reducing the following three things: a) the complexity involved in the project, b) the potential risks in the project and c) the overall duration of the project. It is also found that the standardization and optimization of the processes increase the maturity level of the organization which in turn increases their success.

Key words: *project success, project management, organization maturity*

JEL code: M10

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ASSESSMENT OF ECONOMIC RETURN OF DAUGAVPILS REGIONAL AIRPORT IN LATVIA

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Problem statement. Transport services and related infrastructure is one of the cornerstones of economic development and elimination of regional disparities. Air traffic and airport infrastructure in particular plays an important role in provision of business and labour force mobility. There are 3 public regional airports in Latvia which currently do not provide scheduled air transport services. Public investments are planned in regional airports to certify aerodromes for scheduled services by 2015. Due to low passenger and movements volume regional airports like most regional airports in the European Union are not financially sustainable. Investment in airport infrastructure has to generate positive economic return to justify public funding.

Aim of the research. The aim of the research is to calculate the economic return on investment in Daugavpils airport, which is one of three regional airports in Latvia. The investments include minimum requirements for the aerodrome to be certified for scheduled air services and accommodate aircraft for medium haul destinations (up to 1800 km).

Methods used. Desk research, quantitative analysis (cost-benefit analysis).

Main results and findings. Analysis of economic return of selected regional airport (Daugavpils airport) demonstrate positive economic rate of return exceeding the social opportunity cost of capital. The economic return justifies investment in airport's infrastructure from public resources, if such funding is available. However, attention has to be paid to the cost-effectiveness of the airport's development if capital investment and operating costs are compared to number of direct beneficiaries (passengers of scheduled and non-scheduled services) and investment alternatives for allocation of public funds. Analysis of the economic impact of Daugavpils airport is outside the scope of the study.

Key words: *regional airports, economic return*

JEL code: H54

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INTERCULTURAL COMMUNICATION IN TOURISM PRODUCT DISTRIBUTION

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Intercultural communication plays crucial role to secure successful management of any international tourism business enterprise. Considering complexity of tourism product distribution channels, organizations seek to find efficient ways to deliver proper information of their products to end customers, while distribution itself is done through indirectly, through cooperation partners. Cultural and communication differences may cause disappointments and complaints in case information is not delivered properly, which may seriously influence organizations ability to maintain its cooperation models with existing partners and can seriously influence organization's reputation, thus, reducing its competitiveness. Increasing number of tourist generating markets creates challenges for tourism enterprises in developing customized communication models and generalized, culture differences based communication and cooperation models are expected by tourism enterprises, facilitating their operation. Tourists, originating from 11 different European and Overseas countries within period of two tourism summer seasons, travelling on multi-destination tour to the Baltic States have been questioned if information they have been provided with before travelling, while booking particular tour, corresponds to program they have received during the tour and if tour program purchasing it with travel agent corresponds to program they have received on-site. 1220 questionnaires have been analysed to present conclusions. Aim of research was to identify consequences of communication and impact of cultural differences in information distribution and its effects on management of international tourism enterprise. Results have been analysed based on Hofstede cultural dimension model, identifying interaction between cultural dimensions and its expressions in information delivery and provided information-received product correspondence assessment. Paper analyses results of quantitative research and they indicate need to respect cultural differences and proposes elaboration of strategies ensuring proper information distribution between product producers and end customers. They propose system to organization organization's communication at the same time, respecting differences of cultural dimensions.

Key words: *intercultural communication, tourism enterprises, management*

JEL code: L83

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CHARACTERISTICS FOR THE BEHAVIOUR OF SOCIAL NETWORKS USERS IN GERMANY

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Against the background of a comprehensive milieu analyses of Internet users, which were performed between 09/01/2012 and 09/18/2012, factors and correlations between the usage of traditional media, Internet services and social networks within the German market were analysed. It was possible to use 1,607 completed questionnaires, filled in by German users of social networks, for the analysis. The gathered information was applied to test several sub-hypotheses. These were formed to support the main hypotheses which, in turn, were created to research the transfer of existing descriptions of lifeworlds onto Internet users and to investigate how these descriptions can be extended to characterise the online environment. The analysis displays for the actual frame group that several sub-hypotheses relating to the sector of gender specific media consumption, differences between using the internet on a mobile device or a computer, usage of specific functions in combination with mobile Internet, the specific characteristics of social network users for people with business approaches, as also the transfer of offline hobbies into the Internet could be evaluated. For the analysis, the methods of exploratory factor and correlation analyses were used to support and confirm the hypotheses.

These results established the fundamentals for an upcoming comparison, performed on the basis of the existing lifeworlds, which is intended to support the hypotheses in the main research of the doctoral thesis, and to transfer existing milieu theory approaches from the real world into social networks.

Key words: *social networks, user behaviour, brand preference, consumer segments, economic sociology*

JEL code: M310

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INTEREST RATE IMPLIED VOLATILITY AND CONSUMER SENTIMENT

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We construct a set of interest rate volatility indices (IRVIXs) that measure the future volatility of three-month tenor forward rates over horizons ranging from one to ten years ahead. Constructing interest rate volatility indices IRVIXs is of interest for both academics and market participants. This is because the IRVIXs provide information on the long-term uncertainty of economic agents with respect to one of the main economic and financial variables: interest rates.

These are some of the main differences of IRVIXs with respect to other existing volatility indices. They are relative to interest rates instead to stock indices and, above all, they allow to measure interest rate volatility over short and long term horizons meanwhile most of the existing volatility indices refer to very short horizons (from one to six months ahead).

During the recent financial crisis we observe changes in short-term IRVIXs that only eventually were followed by changes in long-term ones. This may be interpreted as a signal of future long and permanent periods of turbulence in interest rate markets. We also find that IRVIXs are negatively correlated with the underlying forward interest rates, while they are positively correlated with equity market volatility indices. These results have important implications for portfolio management purposes.

Key words: *interest rates, volatility indices, caps and floors*

JEL code: G14, G17

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PROFESSIONAL EDUCATION IN RUSSIA: LEGAL AND FINANCIAL ASPECTS OF TRANSFORMATION

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Purpose. In the situation of long and officially latent crisis there is a change of financing organization in the country. It includes a change in Federal budget expenditures on education, organizational changes in the quantity and structure of higher education institutions, the introduction of efficiency standards for activity of institutes and universities.

So the main purpose of the paper is to analyse problems and prospects of higher education system transformation in Russia and develop proposals for the removal of problems identified.

Methodology. Positive and normative analyses are used. The concept of state regulation of economy is a foundation of the investigation.

Results. Solution of the reforming of higher education should be sought not on the way a significant reduction the number of higher education institutions. The high level of the population education – it is not only an investment to lift the domestic economy, but it is also a necessary condition for human potential development, so – for the country welfare.

Reformation of the education system of the Russian Federation is carried out without considering the needs of society, which is manifested in the absence of a positive effect. However, comparison of the reform program with the changes of consumer preferences, market demands, as well as indicators and characteristics of educational institutions, will help to achieve a positive result.

It is necessary to create of common educational websites, which will contain information actual at present on all courses of the higher school. Besides, much attention has to is paid to creation of the imitating models working as in real time, and in limited temporary terms in the various directions of training. Such approach will allow students to form necessary practical and professional skills which aren't fully formed at existing education system and practically are not realized in the traditional distance learning system.

Keywords: *professional education, financing, higher educational institutions, education reform, distance learning*

JEL code: I122

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RISK HEDGING STRATEGIES USING FUTURES

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In latest years, due to Global crisis, risk management are becoming more important not only for enterprises operating in financial industry, but for any business sphere. However, minimizing risk should not be only task in crisis or post-crisis situations. Appropriate usage of risk hedging instruments can avoid from painful impact on underlying factor changes and crisis situations. Derivatives can be used as insurance against market risks, allowing enterprise concentrate on what they do the best – working in their business field. Although derivatives should be used in careful manner, as without adequate measurement, it can move from efficient solution into business destroying process. This important topic is under the examination for financial analysts as well as a lot of attention is paid by academic researchers.

The article examines the different risk hedging strategies in futures market. Empirical research results give view on various risk hedging strategies based on field enterprise is operating.

The conclusion approves hypothesis that risk hedging strategies involving futures contracts, appropriately managed, can insure enterprises assets and allows management to concentrate on business as usual.

For analysis was used research on scientific publications and modelling of hypothetical futures contracts strategies.

Key words: *derivatives, futures, hedging strategies*

JEL code: G1

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THE COMPARISON OF THE ACCOUNTING LEGISLATION OF THE REPUBLIC OF LATVIA WITH THE INTERNATIONAL REQUIREMENTS CONCERNING THE COMPONENTS OF THE ANNUAL REPORTS DEVELOPED BY COMMERCIAL COMPANIES

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The annual report is a significant document of commercial companies and according to Latvian Republic “Annual Accounts Law”: “the annual accounts shall provide a true and fair view of the assets and liabilities, financial position, profit or loss and cash flow of the company” (Supreme Council, 1992 with amendment). Annual report is used by external users (investors, creditors, customers, competitors, governmental institutions etc.) and by owners of companies, administration and employees. Annual report components, its structure, form, and other requirements are regulated by legislation acts of each country and by international normative documents. Unfortunately these requirements are frequently different. In nowadays globalization circumstances when international cooperation is widely spread it is important for commercial companies annual reports to be comparable and understandable.

The aim of the article is to research and compare requirements of the Latvian Republic commercial company annual reports contents with European Union normative regulations as well as international accounting standards and offer suggestions for LR commercial company annual reports components.

In the paper there are applied the methods of general scientific research in economics: economic analysis and synthesis, logically-constructive, qualitative methods including the methods of the analysis of normative acts. The theoretical and methodological grounds of the article are the normative acts regulating accounting, works produced both by Latvian and foreign scientists as well as the Internet sources.

The author describes and analyses Latvian Republic commercial companies annual report components and compares LR “Annual Accounts Law” and international legislation requirements, which determine annual report content, there are assessed common trends and differences, claimed problems and there are also offered some suggestions for performing LR commercial companies annual reports.

Key words: *annual report, financial report, accounting legislation requirements*

JEL code: M41

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PROBLEMS IN THE DEDUCTION OF HUMAN RESOURCE MARKETING APPROACHES FROM THE GENERIC SALES MARKETING CONCEPT

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The German labour market is one of the few labour markets in the Euro Zone which is still growing. Besides the German workforce is becoming increasingly younger as a lot of employees leave their companies due to age reasons and leave a gap in the labour force. Therefore human resource marketing is gaining more and more importance for German companies. Different authors make an effort to systematize human resource marketing analogous to the generic sales marketing concept. This paper aims to elaborate an overview of the existing approaches to human resource marketing and shows problems in the derivation of human resource marketing from the generic sales marketing approach. Besides questions concerning this derivation are raised, which leave way to further studies.

The study examines the existing literature from the 1960s to today and draws attention to issues emerging from the linkage to the generic sales marketing concept. Hereby different systematizations of HR marketing are shown and a reference framework of HR marketing according to different criteria is explained. The paper identifies and explains existing approaches, with a particular emphasis on the external HR marketing process, to present the state-of-the-art in the realm of HR marketing. This gives an overview of contemporary human resource marketing approaches and raises questions out of the linkage to respectively derivation of human resource marketing from generic sales marketing ideas. These questions as outcome of the paper need to be answered in further studies. By raising these problem indicators in the area of contemporary human resource marketing approaches, the research adds value to the literature, where human resource marketing is not defined by one single autonomous doctrine, but is mostly linked to the generic sales marketing concept. Human resource managers can use the paper for gaining insight into the existing approaches to human resource marketing and think critically of its origin.

Key words: *human resource management, human resource marketing, generic sales marketing*

JEL code: M51

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THE FACTORS AFFECTING LATVIAN PUBLIC ADMINISTRATION DECISION TO OUTSOURCE INFORMATION TECHNOLOGY FUNCTION

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Outsourcing is not anymore a brand new concept, because private and public sector have always purchased some outside goods and services, but in nowadays outsourcing are classified as strategic management model that can be used not only in the public administration support activities, but in core activities too. Outsourcing is a strategy used by public administration to provide high quality public services at low cost and can be viewed as tool to increase public sector efficiency.

Outsourcing has been widely discussed in the context of advantages and disadvantages, potential risks and problems, but very little discussed about the factors that determine public administration decision to outsource. Outsourcing now is widespread and covered many activities which are now outsourced, but main question still existed: do outsourcing public administration activities or services reduce costs while holding quality? How can we identified activities or services that must not be contracted out? More and more public administration is questioning whether is necessary to provide all services by themselves or it is possible to guarantee high quality and cost-effective results with contracting out.

This article reviews how general, public administration-specific and information technology-specific factors influence decision to outsource. All these factors separately and jointly influence Latvian public administration decision to outsource information technology function. Examining these factors therefore helps in understanding the outsourcing decision-making process. Based on different factors, several hypotheses are developed regarding the outsourcing decision.

The aim of this article is to find factor that can be used in decision making process about public administration function outsourcing in field of information technologies. Unified comparative factors allow make decision, taking into account short term and long term goals.

Key words: *decision system, information and communication technology, outsourcing, public administration*

JEL code: H, H8, H830

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THE IMPACT OF PERSONALITY TRAITS AND PROBLEM CHARACTERISTICS ON MANAGEMENT DECISION MAKING OUTCOMES: PRELIMINARY FINDINGS AND CONCLUSIONS

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Based on an intensive literature review and on theoretical analyses as well as preliminary empirical evidence, the authors developed a theoretical framework, proposing cause-effect-relations between personality traits (Neuert, 1987; Pretz & Totz, 2007) – as the independent variable – and decision making efficiency – as the dependent variable –, intervened by differently structured decision making problems and tasks (Lee & Cho, 2007; Sinclair & Ashkanasy, 2002).

The basic set of hypotheses therefore refers to the following suggestions: 1) Decision makers with a pre determination for more rational cognitive behaviour tend to perform better in well-structured problem contexts (Kickul et al., 2009; Lee & Cho, 2007), whereas individuals with more intuition based cognitive attitudes tend to perform better in ill-structured problem contexts (Bradley, 2009; Lee & Cho, 2007); 2) The theoretical framework hypothesizes that individuals with a preference for rational thinking should be more efficient when deciding on well-structured problems, since the characteristics of well-structured problems match their “thinking routines” (Lee & Cho, 2007). In contrast, individuals who have a preference for an intuitive thinking style are more successful in using unconscious information and are more related to heuristic judgments and to ill-structured problems, where by definition goals are defined vaguely or not at all, the problem description is not clear, they have no single or correct solution available, problems are in a special context and there is no execution program to solve the problem in a routine (Bradley, 2009; Lee & Cho, 2007).

Early and preliminary findings of the experimental study indicate that there is no sustainable empirical substantiation allowing for the existence of concise “linear” functions between rational/intuitive reasoning and decision making performance.

However, there seems to be a perceivable relation between intuitive versus rational personality traits and the degree of self-satisfaction with the decision maker’s performance in well-, mid- and ill-structured tasks.

Key words: *decision making, intuition, rational, personality traits, efficiency*

JEL code: D09

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New Challenges of Economic and Business Development – 2013

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HUMAN DEVELOPMENT AND GENDER ISSUES: IN UZBEKISTAN AND LATVIA

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Gender inequality is one of the most topical global problems nowadays. The purpose of human development is to enlarge people's opportunities to a healthy, long and happy life. The main aim of this paper was to investigate relationship between the human development concept and gender problems in the last decade. The link between human development and gender is less studied, particular in case of former Soviet Union countries. The case study was based on a comparative analysis of the situation and problems in Latvia and Uzbekistan, and it aimed at studying the relationship between human development and gender issues: gender norms, inequality, difference in education, working hours, earnings, and life expectancy in both countries. It has been concluded that creating opportunities for women, encouraging women's education may be brought positively to sustainable human development. It is expected that the results of the research may help to determine and solve the human development problems as causes of discrimination against women and men encountered by women in Latvia and Uzbekistan.

Key words: *human development, gender, comparative studies of countries*

JEL code: O15, J16, O57

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INTERNAL COMMUNICATION AS A FACTOR, INFLUENCING COMPETITIVENESS OF ADVERTISING AGENCIES OF LATVIA

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Nowadays competitiveness is evident everywhere in the business of advertising in Latvia. The emergence of new brands has stopped, and the number of new clients has greatly decreased. Although the local and international clients have noticeably dropped, the budgets for advertisement now require more service for less investment. In addition, presentations should involve using fewer resources. In such circumstances, the loyalty of both customers and employees is lost. Because of this, the directors of advertising agencies must find a way to guarantee the effectiveness of personnel with lower wages. Any internal communication plan should be in harmony with the enterprise's aims, goals, and marketing plan for a specific period of time. It would help directors of advertising agencies to reach the goals for which the employees work so that companies will find success through communication.

The aim of the study is to characterize the factors influencing the competitiveness of advertising agencies and to evaluate the role internal communication follows in order to increase it. To reach the aim of this study, principles of strategically guided communication of employees are examined and their impact on the efficiency of employees is demonstrated.

This study was performed by analysing data, interviewing experts, and exploring the latest tendencies and recommendations in scientific journals.

Key words: *advertising agency, competitiveness, competitiveness factor, internal communications*

JEL code: M3

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ANALYSIS OF GINI COEFFICIENT (INDEX) IN HOUSEHOLDS OF LATVIA

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The author continues researching the theme of the correlation of demographic, social and economic factors in regions of Latvia, studying the Latvian households in aspect of Gini coefficient. Aim of the studies is to look at the methodology of calculation of this index, to assess the changes of Gini coefficient based on information available in databases.

The newest comparable data for EU countries are available for year 2010. Within EU countries the average Gini coefficient was 0.307. The highest value of Gini was for Latvia (0.352), but the lowest – for Iceland (0.236). (EUROSTAT database).

In Latvia the Gini coefficient is being measured since 2004 (0.361). The biggest inequality was in year 2005 – 0.392, but the lowest one in 2006 – 0.352 (it can be explained by increase of social tax transfers). Since 2007 the Gini coefficient has been decreasing, from 0.377 till 0.352 in year 2010.

When comparing statistical data in regions of Latvia, it can be concluded that in year 2010 the most unequal distribution of income was in Riga – 0.352 and Pieriga – 0.347, but the most equal distribution of income was in Kurzeme – 0.322. (CSB database)

Income of whole household is dependant on the income of most profitable member – is he/she working wage work, has retired, self-employed or has other status. In 2010, 56% of households were working in hired jobs, 29% – households of retired people, 7% – self-employed. Approximately 7% of households consisted of unemployed, where most of income

Main results and findings of paper are: even if Gini coefficient in Latvia has a tendency of reducing, it is still a relative indicator which does not reflect how real consumption expenditure on one household member has lowered over this period of time in all types of households.

Key words: *Gini coefficient (index), households, regions*

JEL code: J170

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COLLABORATIVE DIMENSION IN CONFLICT MANAGEMENT WITHIN PRE-UNIVERSITY EDUCATION SYSTEM REGARDING HUMAN RESOURCE

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Ana-Maria Tudorache (Stăncescu), Valahia University from Târgoviste, Romania
Liviu Vasilescu, Valahia University from Târgoviste, Romania

Once Romania joins the European Union, the educational system crosses a profound period of transformation at all its levels, the current socio-economic context threatening the national capacity to achieve common European objectives to expand and improve education. Under these conditions, numeric growth of conflicts represents a warning for the management behaviour in the educational system, where specific line, drawn on prevalent human value losses on financial ones, require close monitoring of conflicting tensions since their first signs of occurrence.

An imperative requirement of modern conflict management activity, necessary for the possibility of settlement, but not sufficient, is to create a communication channel between conflicting parties: students, parents, representatives of authorities at different levels, managers of pre-school teams and pupils of the school or education authority departments as county inspectorates; adding to this context the parties motivation to communicate and not to escalate the conflict by avoiding patterns of constraints and threats, considered to be wrong reflexes.

For these reasons, this study aims to carry out a blueprint for conflict in pre-university education in Romania (especially in Dâmbovița County), an analysis of their impact on teacher motivation in this county and also to identify the most appropriate methods of managing conflicts and to improve teacher motivation.

The findings of this research showed that, at present, the Romanian pre-university education crosses a tense period. As a result, the teaching profession is characterized by several conflicts, high resignation rates, lack of confidence and low levels of motivation and professional commitment.

In conclusion, it is very important for us to realize the depth and nature of conflicts education is facing. And in the process of trying to diminish or to solve the problems and challenges we face, we should ensure that we do not destroy teachers' motivation because this will have a negative impact on all stakeholders in the education field.

Keywords: *human resources, conflict, pre-university education, motivation, communication*

JEL code: I21, J 52

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APPLICATION OF PROJECT MANAGEMENT PROCESS IN PUBLIC PROJECTS

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The modern-day project management is unimaginable without the application of project management process. On the changing economic scene, one of the tools for growth of the new European Union member states is the available funding for improvement and construction projects of the public infrastructure. In the 2007–2013 planning period Latvia has 4.5 billion EUR available for the implementation of various projects.

The purpose of this article is to analyse the polycentric development infrastructure project initialization, planning and introduction processes through analysis of their compliance with the project management process.

The subject of the study refers to municipality infrastructure and construction projects.

The methodological basis for the article is made up of the laws, regulations, and guidelines of the Republic of Latvia as well as works of foreign authors, and research carried out by the authors. Comparative analysis was used for assessment of the results of expert surveys (Delphi method) and their coordination with the risk analysis provided by project submitters. Having analysed the municipality public infrastructure and construction projects, it was concluded that their adopted project planning is incomplete, and its significance is not always understood on the municipality level. To justify the necessity for the project, it is best to start by describing the issue in question or the problem topicality. Municipalities are forced in their work to solve problem situations involving various target groups.

Having analysed municipality project submissions, the authors concluded that the particular problem solution approach, i.e. the alternative analysis, is of particular importance in program and project planning.

To analyse 73 of the approved municipality infrastructure projects in the polycentric development priority, the authors carried out assessment of a cost-benefit (CBA) analysis application.

Keywords: *project management process, construction projects*

JEL code: O22, L74

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PENSION STATISTICS IN LATVIA: RESOURCES AND WEAKNESSES

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Reliable statistical data is a fundamental prerequisite of a credible research. A researcher with academic interest in pension policies and economics of pensions cannot do without pension statistics. There are several public bodies in Latvia that are gathering statistics on pensions and publishing reports in this field:

- 1) overall pension management is a core business of the State Social Security Agency (VSAA) – an institution within the Welfare Ministry;
- 2) Central Depository of Latvia (LCD), a subsidiary of NASDAQ OMX Riga stock exchange, holds the registry of individual second-pillar pension accounts and runs the web-portal devoted to mandatory pension funds;
- 3) Financial Capital and Market Commission (FKTK), an autonomous public institution, is, inter alia, supervising the performance of private pension funds and LCD;
- 4) Central Statistical Bureau of Latvia (CSB), a body subordinate to the Ministry of Economics, is the main performer and coordinator of the official statistical work in the country.

However, the statistical data provided by the above organizations are discrepant. E.g. CSB and VSAA return different values for average old age pensions and the number of pensioners for the same periods; average weighted yields of pension funds reported by VSAA are inconsistent with the yields reported by FKTK; LCD statistics of pension fund participants is at variance with similar VSAA figures, and so on.

Despite of the abundance of resources, a researcher may be confused having to choose the most reliable data. In the quite frequent absence of methodology descriptions it is problematic to make accurate comparisons with other countries. The author uses comparative analysis of statistical data from different sources to find discrepancies, simulation methods and in-depth interviews to identify the underlying causes of these discrepancies. She urges the fellow researchers to take into consideration the revealed weaknesses of Latvian pension statistics.

Key words: *pensions, statistics, research*

JEL code: C46, H55, H75

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New Challenges of Economic and Business Development – 2013

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CURRENT DEVELOPMENTS IN RISK CULTURE IN FINANCIAL ORGANIZATIONS IN GERMANY

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“Risk culture – beside People – is THE most crucial factor for successful risk management generally and in OpRisk management in particular.” (Doering H.-U., 2003) 50% of the companies of the Economist Intelligence Unit study in 2007 believe that a strong risk culture is the most important factor for the success of their risk management system. In the financial sector the regulatory requirements imposed by national laws as well as BASLE II and BASLE III result in tightened measures to manage risks.

Research regarding risk culture is a relatively new subject of applied science. The paper reviews the current research theories. One of the current scientific concepts regarding risk culture is the approach of Führung (Führung, 2010). According to his approach risk culture is determined by the degree of risk-appropriate behaviour and the risk conviction. Führung applies Schein’s findings of organizational culture in combination with the resource-based theory to develop a model which differentiates between four types of risk culture.

This concept is analysed via a qualitative content analysis of the annual financial statements of the top financial institutions in Germany between 2008 and 2011. According to Schein, language is an artefact of the corporate culture. Thus, the used linguistic expressions represent the corporate culture.

The financial statements are analysed regarding their risk culture artefacts, their risk management descriptions and the monetary impact of the risk situation of the financial institutions. Thus, the paper combines the monetary implications of the financial crisis with the organizational theory. Moreover, the paper depicts the developments regarding risk culture in the financial organization between 2008 and 2011.

Key words: *risk culture, risk culture artefacts, resource-based risk culture approach, financial organization*

JEL code: L22

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FINANCIAL MARKETS IN THE BALTIC STATES IN THE CHANGING ENVIRONMENT

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Many agreed that in recent years the economic environment has changed very quickly, dramatically, and thus, creating profound imbalances. But behind this too often scanned claim, almost everything else about this phenomenon is the subject of intense debate.

The **object** of this paper is Baltic financial markets.

The **purpose** of this research is by analysing Baltic financial markets from international competitiveness perspective to find how Latvia's financial market can benefit under changing environment.

To achieve the purpose the following **tasks** were conducted:

- 1) to identify the main pros and cons of financial market development in the changing environment;
- 2) to assess Baltic financial markets from international competitiveness;
- 3) to analyse the different evolution of main indicators of financial markets development;
- 4) on the basis of the author's findings to put forward offers, how Latvia's financial market can to benefit in the changing environment.

Chapter 1 explores the main pros and cons of financial market development in the changing environment. Chapter 2 assesses Baltic financial markets from international competitiveness perspective. Finally, in Chapter 3 the author looks for solutions how Latvia's financial market can to benefit in the changing environment taking into account our neighbour countries achievements.

The study results highlight the need to recognize that the market requires strict rules, restrictions and careful monitoring so Latvia's financial market to achieve at least Estonia's level and to exceed Estonia in the future. And that the rules, constraints and monitoring exercises need a macroprudential approach.

During development of the paper the generally accepted qualitative and quantitative **methods of economic research** were used.

Key words: *financial markets, competitiveness, Baltic States*

JEL code: G10

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HANDLING OF MERGERS AND ACQUISITIONS RISK WITH DUE DILIGENCE IN EMERGING MARKETS – COMPARISON OF SCIENTIFIC STATE OF RESEARCH AND PRACTICAL POINT OF VIEW

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The obviously ever increasing number of corporate mergers and acquisitions (M&As) in recent decades has widened and improved the general knowledge and awareness of due diligence for both the industry and research. In the current financial crisis, M&A transactions face higher degree of risk profiles, especially in the emerging markets. The greater the uncertainty, the more diligence is due. A number of globally active consulting companies performed surveys and got results which differ from the state of the scientific economic research to this topic. Companies investing in firms in those markets believe the risk assessment they do before investing in the lesser-known environment of emerging markets, needs to be enhanced. The problem is that common risk assessment approaches consider financial, legal, commercial, and other issues – but they are not discrete areas in emerging markets, because there is overlap between the public and private sector in these regions, information is unreliable and regulation unpredictable. As the surveys show, e.g. state intervention, political instability and litigation history are both commercial and reputational issues in emerging markets. Thus more integrated approach to due diligence is required in these regions than in developed markets. This paper focuses on practitioner's experience with M&A due diligence and how the current state of research efforts in M&As due diligence fits to this experience. The comparison calls for a different, more integrated system of due diligence and shows the research deficit.

Key words: *due diligence, emerging markets, mergers and acquisitions, risk, investment*

JEL code: G34

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DEVELOPMENT OF LONG-TERM SAVINGS SYSTEM IN LATVIA

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Svetlana Orlova, University of Latvia, Latvia

This paper documents that in Latvia long-term savings are not particularly widespread both in the form of bank deposits as well as investment assets. Indirectly, this contributed to the 2009 balance of payments crisis, because it encouraged overreliance on foreign financing sources.

Authors consider the dynamics of the long-term saving system in Latvia, offer a theoretical classification of savings based on the underlying incentives and suggested that one of the reasons for the lack of sustainable domestic savings may lie in the low levels of financial literacy of the population. Lack of financial literacy is by no means the problem unique to Latvia; high levels of financial illiteracy have also been documented by Lusardi (2008) in the U.S. and Van Rooij et. al. (2011) in the Netherlands. However, in Latvia the problem is complicated by poor demographics and low level of population trust in the institutions in general. This makes the task of improving financial literacy even more urgent.

The paper suggests some proposals and recommendations to further facilitate the development of the system of long-term savings.

Because low levels of financial literacy may be a concern, the government and the financial industry should facilitate encouragement of responsible financial behaviour and literacy of the population. The financially literate part of the population, who respond to incentives such as higher profitability of pension plans, will save more once the macroeconomic situation in the country is improved. To that end the government must take steps to preserve macroeconomic stability and create a tax environment that is conducive for saving and investment. Finally, the demographic trends highlighted in the paper should be reversed by stimulating the return of migrant workers and adopting pro-natal policies. This will result in growth of the number of economically active population, who will create more long-term savings in the future.

Key words: *long-term savings, deposits, pension plan assets*

JEL code: E21

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DOES THE LEADER METHOD PRODUCE INNOVATION IN RURAL TOURISM DEVELOPMENT?

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At the beginning of the 1990ies the European Commission introduced the Community Initiative (CI) LEADER (Liaison Entre Actions de Développement de l'Économie Rurale). Linked to a specific method and equipped with public funds LEADER should open up a laboratory for finding and testing new solutions for development problems in rural areas. After 15 years of testing, LEADER reached the status of a success story and thus became a methodological element of rural development programmes in all EU member states in the period 2007 to 2013. However, in 2010 the European Court of Auditors comes repeatedly to the conclusion that LEADER produces innovation or interaction between different sectors only to a very limited extent. The ambiguous and even contradicting appraisals of LEADER raise questions on how to transfer the LEADER method into effective practice and how to evaluate intended outcomes. Departing from the basic proposition that the LEADER method, when properly applied, produces innovation the paper aims to uncover empirical patterns of regional governance related to innovation and compare them with a theoretical model developed by the European Observatory LEADER already in 1997 but never applied in official programme evaluations. The empirical analysis is based on the evaluation case study of an Austria LEADER territory covering six years of programme implementation (2007-2012). The subject of analysis is less the single projects but more the linkages of activities and interactions of the players involved. Thereby the focus is on tourism as one of the major drivers for employment and growth in mountainous rural areas. The main findings are that innovation is often initiated and pushed forward by individuals or small groups of actors. Innovation in this rural tourism context occurs in smaller steps, concerns rather traditional competences than new sectors and need often years to reach market entry. Communities and destination management organisations play a dominant role in project implementation whereas deficits occur in the integration of private businesses. This is particularly true for lagging areas. In stronger destinations innovation is more pushed by private companies. All in all innovative initiatives co-financed with LEADER and other public funds are rather the exception than the rule.

Key words: *regional governance, rural development, innovation, LEADER method, tourism development*

JEL code: R11

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ORGANIZATION THEORY UNDER THE CONSIDERATION OF ASPECTS OF SOCIAL CAPITAL

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This paper describes the positive and negative aspects of social capital in and for organizations. The social capital theory gives the opportunity to explain and describe processes, behaviour, achievements and functionalities in organizations and of individuals. There are many issues regarding this research field which makes it impossible to provide a complete overview with this paper. The basis for this paper is an overview of the relevant literature regarding social capital and organizational theory.

Social capital is part of the organizational theories. Social capital describes the relationship between individuals and organizations. The results of the relationship are reactions, action and behaviour. The purpose of the theories is to explain organizations for the scientific work and to give practical implications. The result of the research helps individuals to understand their environment, processes and behaviour, especially the behaviour of real organizations. This knowledge is needed to improve, develop and to change the reality successfully. This paper identifies social capital and explains the impact of social capital in companies, networks or clubs for example.

Many scientists describe organizations and the processes, functionality and behaviour of organizations. There are different theories and explanations. This section concentrates on the natural system, rational system and open system under the consideration of social capital. In addition there are different ideas and explanations for social capital. The paper identifies social capital as a structure of relationships between individuals or organizations and social capital as a resource.

The result of the paper is the explanation of the influence of social capital on organizations and the impact of social capital on the result of processes, behaviour or action of organizations and individuals.

Key words: *social capital, organization*

JEL code: M10

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LEADERSHIP STYLES AND THE CORRELATION TO GENDER

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The purpose of the research is to review different leadership styles and get insight about specific female and male leadership style characteristics. Literature and theories related to leadership styles from 1950 to present have been taken into consideration and reviewed. Different leadership styles and their specific characteristics have been described, compared and evaluated in respect to gender roles. It was found out that female and male incline different leadership styles. Male experience a leadership advantage whereas female experience a leadership disadvantage in a male dominated working environment. Advantages of female leadership styles are partially offset by disadvantages that result from prejudice and discrimination against women. The leadership literature also argues that female and male leadership styles may be similar or may vary depending on the needs of the task and the situation. This is a limitation of leadership theories in correlation to gender as leadership may be situational and requires specific behaviour in particular situations independent from gender roles. The paper reflects and extends prior research by evaluating existing theories of leadership styles. A critical reflection regarding gender correlation has been deliberated by the author.

Key words: *leadership styles, women, stereotyping*

JEL code: D03

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EVALUATION OF CITIZEN PARTICIPATION IN LOCAL GOVERNMENTS OF LATVIA

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The level of local democracy and the quality of governance by the local government are characterized by the citizen participation in solving important local issues. The mechanisms of participatory democracy and its practice at the local level are no less important than those in national politics. One of the fundamental principles of local democracy is that citizens have the right and opportunities to take part in and to influence the decisions that affect their lives and their communities.

The analysis and evaluation of the process of citizen participation in Latvia is an area that is not well studied. Also the development of participatory mechanisms by making changes in the law has had a greater affect on participation at the level of central government.

The purpose of this paper is to evaluate the level of citizen participation at local levels of authority in Latvia; to identify the factors that influence the amount of citizen participation and the attitudes associated with it and to find a causal relationship between the level of the citizens' satisfaction with their lives, the performance of the municipality and the degree of participation.

The research is based on monographic and document analysis methods. The analysis of empirical research will be based on the results of a public opinion survey of residents in all regions of Latvia made by the author in 2012.

The results show a low level of citizen participation and low participation in the decision-making processes at the local level. The empirical results of the survey show that the results are different in various regions of Latvia.

Getting people to participate in civic activities is not easy and the factors that inspire citizen participation are not clearly understood. Hence more analysis is required to obtain a better understanding of this very important activity.

Key words: *citizen participation, local democracy, local governments, direct democracy*

JEL code: H7, H83

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New Challenges of Economic and Business Development – 2013

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INDUSTRIAL POLICY: PRO AND CONS. A LITERATURE REVIEW

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For last year discussion among economic professionals and academics about necessity and best solutions of industrial policy and state intervention concept regained its importance. Usually the debate is about comparing of several development stages in industrial policy thinking: e.g. modern industrial policy versus industrial policy of 20th century or industrial policy of East-Asia countries. Using literature review this study undertakes analysis of industrial policy concepts focusing on discussion about development of thinking about pros and cons of industrial policy.

The aim of the study is to restart a discussion among economic professional and academics in Latvia about necessity of industrial policy in Latvia, and possible benefits or disadvantages of this economic concept.

Key words: *industrial policy, state interventions*

JEL code: L52

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PROBLEMS OF DEVELOPMENT OF NATIONAL SOCIAL-ECONOMIC SYSTEM IN CONDITIONS OF GLOBALIZATION

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In our days it's impossible to find a country not involved in the process of globalization. The influence of globalization may be both positive and negative. What does it depend on? The aim of this paper is to investigate the asymmetric impact of globalization on the development of various socio-economic systems in the modern world. It's necessary to analyse different aspects of globalization, such as measuring of economic effect, choice of models of modernization, role of government etc. Special attention should be paid to the problems of adaptation to the conditions of the various countries of economic globalization. Particular features of adaptation of Russian economy to globalization are also analysed.

Key words: *globalization, the neoliberal model, "challenges" of globalization, models of modernization, westernization*

JEL code: F62

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New Challenges of Economic and Business Development – 2013

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EUROPEAN ECONOMIC GOVERNANCE AND SOCIAL DIALOGUE

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The paper provides an overview of the current challenges that confront public authorities and social partners in the EU. It demonstrates that social partnership in the EU is seriously affected by the financial crisis and subsequent economic recession of 2008-2010 and the 2011-2012 sovereign debt crises in Eurozone. The paper examines a social dialogue between unions, employers and governments as a fundamental element of industrial relations at large. However, the framework of the study is the new EU concept of economic governance and position of trade unions towards this concept and its implementation.

The author had elaborated the approach to industrial relations and social dialogue taking into account comparative approach used by international institutions and current socio-economic trends. The research methodology is based on quantitative data collection as well as qualitative analysis of the available information at the EU level and in Latvia. In addition, a comparative analysis was implemented while models of trade unions were analysed and the trade unions' practices as a social partner in the decision-making processes in the EU and Latvia have been illustrated. Finally the paper considers how the trade unions performance in Latvia could be encouraged, e.g. through changing tasks and functions and empowering stakeholders to perform efficiently in general and in relation to the new European social and economic governance.

Key words: *European economic governance, trade unions, legislation, social dialogue, social partnership*

JEL code: J50, J52, J53, J54, J58

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LA DIVERSITE – ENTRE LE REVE ET LA REALITE; UNE APPROCHE MANAGERIALE

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Les stratégies de Lisbonne et 2020 ont imposé au pays européens une réévaluation des activités qui concernent la responsabilité sociale de l'entreprise dans le sens de l'assurance de la diversité, de l'égalité de chances qui se retrouvent dans tous les efforts de tous les acteurs impliqués. L'intérêt pour la diversité a commencé à partir de la stratégie de Lisbonne qui a promu comme principe de vie „égalité de chances”, en ayant vue la complexité et la variété du monde.

Les origines de la diversité se retrouvent dans la diversité de l'emploi, dans la diversité des niveaux de formation, dans les différences culturelles. Pratiquement on a mis ces problèmes pendant les années 1980 lorsque le processus de globalisation et d'internationalisation du monde a explosé en obligeant les hommes politiques et les managers de trouver des solutions pour résoudre beaucoup de problèmes.

La recherche de la diversité s'est développée, particulièrement en France sur la diversité religieuse.

D'autre part l'approche managériale de la diversité rend compte de la nécessité de pratiquer un management très performant. On parle du management dans ce domaine, on y pense à la institutionnalisation des préoccupations dans la diversité: la création des organismes qui ont comme tâches la monitorisation et la surveillance de la diversité. Le rapport essaye d'identifier quels sont les éléments qui déterminent les entreprises et les managers dans cette direction.

Key words: *Les stratégies de Lisbonne, diversité, management*

JEL code: D63, O12

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CORPORATE SOCIAL RESPONSIBILITY IN RUSSIA: SPECIAL FEATURES AND MAIN PROBLEMS

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The main purpose of the paper is to analyse main particular features of CSR in Russia; reveal important problems and outline possible ways to solve them.

Methodology. The investigation of the CSR phenomenon is based on modern theories and concepts, such as corporate social responsibility, corporate social performance and sustainable development.

Results. Main characteristics of CSR in Russia are given; main problems are exposed and ways to overcome them are outlined.

Practical implication: the results of the study may be used in the operation of Russian companies.

Value/originality: the conclusions and recommendations are based on empirical study.

CSR is not “terra incognita” for Russia. There were a lot of philanthropy traditions in Russia in the 18-19th centuries. So it will be better to attribute contemporary processes in this sphere as a renaissance. There are certain reasons for Russian business to pay special attention to CSR phenomenon, i.e. economic crisis, international activity, demographic and social problems etc. Besides, states (governments) try to redistribute social responsibility – in favour of business.

There are certain results of CSR renaissance in Russia in 2003-2012:

- There are a lot of companies, which demonstrate (or at least declare) their social responsibility in the non-financial reports (327 reports in 2000-2012);
- Society is now interested in domestic and transnational responsible companies;
- CSR is a sphere of scientific interest, moreover, it's now an academic discipline.

But at the same time there are certain problems:

- the ideas and principles of are not widely known (in comparison with Europe and USA), especially among domestic companies;
- corporate social activity is a result of non-market pressure, so it is “re-active”, but not “active”;
- CSR is not treated as a factor of sustainable development of companies.

It's impossible to receive the benefits of CSR beyond market mechanism. Thus, it's difficult to overestimate the role of government in the process of creation and restoration of the institute of CSR.

Key words: *corporate social responsibility, corporate social activity, principles of CSR, forms of CSR, corporate social activity management*

JEL code: M14

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INFLUENCE OF ECONOMIC POLICY IN SPHERE OF HIGHER EDUCATION ON INTERNATIONAL COMPETITIVENESS

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Santa Sproģe-Rimša, University of Latvia, Latvia⁷⁴

The aim of the paper is to perform analysis of influence of economic policy in sphere of higher education on international competitiveness. Objective is to discover connection between higher education and international competitiveness and to highlight the importance for State's economic development. Therefore instruments of economic policy are seen as essential aspect of the research. For entire understanding of the topic the theory of economics of education is analysed and cost-benefit analysis is used for unbiased conclusions.

For better insight the authors have analysed influence of economic policy in sphere of higher education of Latvia and Estonia. It indicates the link between governments' priorities in higher education and how in reality there are implemented. At the same time it shows correlation between the budget expenses for higher education and its level in international ranking. Importance of international acknowledgment of higher education is essential aspect of competitiveness of human resources. Even more the acknowledgment gives the opportunity to make higher education as export good; therefore governments' support for higher education is included in the research.

Findings of the research reveal the opportunity to promote higher education as export good for particular geographic area and to come forward with factors analysis which is necessary for building up competitive proposal in higher education for foreign students.

Key words: *higher education, acknowledgment of higher education, international competitiveness, economic policy*

JEL code: I2, I25, I28

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SATISFACTION OF EMPLOYEES: SEARCHING LINKS BETWEEN ORGANIZATIONAL CULTURE AND COMMUNICATION

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Organizational culture determines the kind of people who will be attracted to a firm and the way they will interact within the firm. Investigations of different authors in this sphere are reviewed. Organizations' future as well as income depends on managers' value orientation, his ability to communicate and present ideas to the employees. The organizational culture exists to unite the people, to create a common conception, to stimulate the prosperity and development of the organization. This is achieved through leadership and personal communication of individuals, when the individuals interchange ideas, set up the identity of their firm through orientation on securities which exist in the organization. But as usually organizational culture is analysed in context of internal or internal life of organization, but not describe the role of employee's satisfaction. It is scientific and practical problem, how to create; evaluate organizational culture through communication for searching employees satisfaction. Because it is important to state that satisfaction of employees can be one of the main engines of organization profitability. The aim of this paper is the investigation on opinion of employee's satisfaction at work place influenced by organizational culture and communication. Research was done in 2011. So we have inquired 1034 respondents and we might state that it is the right number to get reliable answers. The research results show that in general respondents are satisfied at their work place. And we find that there are strong correlation between satisfaction of employee and knowing organizational culture. People whom everything satisfied as usually communicate with managers, know organization tradition. Results show that the biggest part of employees who searching new job haven't financial ties with organization- getting only salary and don't want to communicate with managers. These results show that it is very important to involve people to organization life, to use different motivation forms. There were used methods: the analysis of scientific articles, comparison, systematic analysis of survey with the help of SPSS methodology, logic-based conclusions.

Key words: *organizational culture, communication, manager, satisfaction, employee*

JEL code: M14, M12

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LEVERAGING SOCIAL CAPITAL ON PUBLIC SOCIAL SOFTWARE PLATFORMS FOR ECONOMIC NEED SATISFACTION IN THE AIRPORT INDUSTRY

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Purpose. Network ties that cross organizational boundaries, i.e. bridging social capital, have been acknowledged by scholars as a major source of competitive advantage. With the advent of public Social Software Platforms (SSP), such as Facebook, organizations are provided with the opportunity to extend beyond organizational boundaries and include the customer in the value creation process. However, as Porter (2006, p. 225) noted, “the mere presence of firms, suppliers, and institutions in a location [i.e. SSP] creates the potential for economic value, but it does not necessarily ensure the realization of that potential”. The aim of the research paper is to explore, if airport organizations are able to increase their economic need satisfaction when interacting with passengers on SSP.

Design/methodology/approach. Based on a literature review the paper adopts a strategy map approach to deduce cause-effect relationships between engaging with passengers on SSP and economic need satisfaction of airport organizations. Expert interviews with corporate communication managers of six out of eight major German airports (annual passenger volume > 5 Mio.) provide initial insights into the current degree of economic need satisfaction by contrasting SSP with traditional communication channels of airports.

Findings. The paper summarizes the motivation of airport organizations to interact with passengers on SSP and describes to what degree SSP contribute to economic need satisfaction with respect to ‘customer insights’, ‘operational efficiency’, ‘innovative strength’, ‘customer advocacy’ and ‘customer satisfaction’.

Originality/value. Social capital research is still mainly scoped within organizational boundaries. The paper broadens the research focus to the focal actors *organization* and *customer*. From a practitioners’ point of view understanding the relationship between bridging social capital and economic need satisfaction is vital for harvesting the full potential of SSP.

Key words: *airport industry, economic needs, public social software platforms, social capital*

JEL code: O33

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MARKETING ACTIVITIES TO INCREASE THE COMPANIES' REVENUES

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The problem with falling sales in times of recessions draws the attention of researchers who look for marketing opportunities to overcome it, or compensate for the fall. Activities are oriented either towards more efficient use of internal company resources, or towards more active marketing involvement in the company's business through utilization of opportunities arising from changes in the environment. The ability to increase revenues in times of crisis through traditional marketing techniques is a subject to questions. It is necessary to rethink the marketing approaches and re-balance marketing resources in order to implement the updated marketing strategy focused on reducing risks and increasing sales. The main idea of this report focuses on the representation of real approaches to increase the revenues based on flexible marketing solutions. The study aims to establish the major marketing activities that are implemented by companies in order to overcome the drop in sales and / or to compensate for those; also studied are specific business practices to increase revenue. The research focus falls on investigating the opportunities to increase the companies' revenue through the use of transfer effects of cross-selling, adding marketing channels, improving the user overall experience, updating the product range, generating additional services/sales, implementing flexible marketing tools and taking a full advantage of marketing event territory. The active use of all the tools in the marketing toolbox will ensure a more accurate customer targeting and result in better market positioning off and online. Special attention is given to the role of information in revenue management for companies in the current conditions.

Key words: *marketing opportunities, flexible marketing, revenues, information*

JEL code: M31

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PROJECT RISK MANAGEMENT DOCUMENTATION MATURITY MODEL

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The article deals with the use of the project management maturity models for the creation of project risk management documentation. The theoretical foundation of the research is the project management maturity model, and project risk management process. The application of the project management maturity models can provide for the designing of risk management documentation, when, along with a rise in the level of an organization project management maturity, there is a corresponding change in the contents of the risk management documentation. Already at the first maturity level (*Standardize*) it can be concluded that maturity models do not contain sufficient information for designing risk documentation. However, the designing of risk documentation for the first maturity level is not complicated because the risk management standards or risk management process descriptions contain sufficient information on project management methodology. However, in the following maturity levels (*Measure, Control, and Continuously Improve*) there is insufficient information because neither project risk management process descriptions, nor project maturity level models contain the information on what has to be measured and controlled or how continuous improvement is to take place. Therefore it is necessary to add additional theoretical substantiation, for example ISO 9001:2008.

Key words: *risk, project, maturity model, project risk management, documentation*

JEL code: M100

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THEORY OF DECISION MAKING FOR THE EFFECTIVE ANALYSIS OF ERP SELECTION AT SME

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The history of decision making theory in the area of organisation theory is very mature. It reaches back to the 18th century where Bernoulli discussed risk science. In the early 20th century Barnard differentiated between personal and organisational interests in decision making and Neumann and Morgenstern described a mathematical basis for economic decision making. Theorists as March, Simon, and Mintzberg laid the foundation for the study of managerial decision making. Since mid of the 20th century the management decision making theory is divided into normative (rational) decision making and descriptive (behavioural) decision making. With the work of Kahnemann and Tversky the economical behaviour was strengthen.

Mainly these theories have been taken into consideration analysing an important decision making process at Small and Medium Size Entities (SME) – the selection and purchase of an Enterprise Resource Planning (ERP) System. This strategic decision is one very critical; because the management focus mainly on the implementation which is an extensive process often runs into cost overruns. Focus for this research was purely on the selection of the ERP system and all influencing decision criteria. The reflection with the efficiency of the process as well as the satisfaction with the decision was one result along a developed process.

Expert Interviews and Case Studies have been executed to support the theoretical approach and literature review. The interviews provide a clear overview of the current practice and support the hypothesis that ‘a clear and structured process and the awareness at senior management level from the very beginning’ would lead to a high efficient long-term decisions. The focus of the case studies was mainly on testing the model, process and theoretical findings.

In summary a clear execution process along a theoretical model and a structured set of decision criteria are the main scientific results for this study.

Key words: *decision making, enterprise resource planning (ERP), small and mid-size entities (SME), selection process*

JEL code: D80

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APPLICATION OF INNOVATIVE APPROACHES AND TECHNIQUES TO INCREASE THE EFFECTIVENESS OF KNOWLEDGE MANAGEMENT PROCESS IN ORGANISATIONS

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The new recently developed economic situation in Europe requires employees to be able to acquire new skills quickly and adapt to the changing environment.

Demand for the highly skilled employees is constantly growing and learning becomes a part of the daily routine. Usually, employees are studying after office hours, therefore, there is a high demand for the training curriculums that would help employees to acquire new knowledge within short time periods and would be highly efficient and effective.

The standard working day lasts eight hours and it is critical to understand how much an employee can learn during this time, and whether it is possible to teach a person to think faster.

The key effect the training courses offered by the author is an ability to think and analyze information faster, develop and assess alternative solutions and reach plausible decisions. For example, imagine that you come to the office and suddenly realize that you can think three times faster than your colleagues. It does not mean that you have become smarter, however have acquired skills that can provide new development opportunities. The research conducted by the author is devoted to the speed memorizing and speed reading techniques. The author has developed the training program, tested it on multiple groups and introduced it in practice. The training program provides with an effective and measurable practical results.

Objective of this training program is to increase the speed of reading and memorizing for more than three times during a six day course. The author has also developed an advanced training program to improve mental capacity, expand possibilities of memorizing data, acquire speed reading techniques. The given program develops skills of effective interoperability when working with extensive volumes of information.

This research is based on the author's study conducted in 1999-2011. The research contains data of training results of 4,587 people. Research was conducted within the licensed Educational Center Lando® managed by the author (License of the Ministry of Education and Science No. 3360800220).

Key words: *speed reading, adult education, vocational education, innovative teaching methods*

JEL code: M12

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IMPACTS OF EMOTIONAL INTELLIGENCE ON LEADERSHIP EFFECTIVENESS

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The aim of this paper is to analyse the impacts of emotional intelligence on leadership effectiveness. In a first step the concept of emotional intelligence is introduced. The most important definitions and perspectives are shown to gain a general understanding of emotional intelligence. The term emotion is clarified to understand the influencing forces on emotions and emotional behaviour. Afterwards, the skills of emotionally intelligent people are analysed, showing the extent to which emotions might be mastered and controlled. Furthermore, a clear differentiation between emotionally intelligent and emotionally unintelligent actions is made, introducing rules to identify emotionally intelligent actions. In a second step, the term leadership is introduced and the differentiation between leadership and management is made. After having briefly touched the most recent theories on leadership a general direction is identified where research on leadership is leading, clarifying which aspects of leadership are coming into focus. Following this direction, assumptions are made about what might be expected of future leaders. These expectations are then translated into the main actions leaders will have to do in order to fulfil those expectations. Those defined actions are seen as the main leadership tasks of the future. The concluding part of the paper will analyse the outcomes of the selected leadership tasks if performed in an emotionally intelligent or emotionally unintelligent way. The essence of this analysis will be the direction and intensity of the impact emotional intelligence might have on leadership. The conclusions will not be tested in practice so that the results of this paper will be purely theoretical, which is a clear limitation of the research. The verification or falsification of the found impacts in practice will have to be subject to further research.

Key words: *emotional intelligence, leadership, management*

JEL code: M12

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THEORETICAL ARGUMENTS FOR A PASSIVE INVESTMENT STRATEGY

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One main classification of portfolio management strategies is the differentiation between active and passive approaches. Proponents of an active investment management strategy believe that capital markets are inefficient, and therefore it should be possible to achieve above-average risk-adjusted returns via stock selection and/or timing. On the other hand, passive investment managers do not believe in such opportunities, therefore, they try to cover a preferably broad index of securities as accurately as possible. Next to diverse empirical quantitative studies, there are developed some theories that support a passive investment strategy by a distinct sequence of logical arguments. The paper presents these theories and evaluates their utility for an application of a passive investment strategy. Altogether, five specific qualitative arguments could be found which are eligible to be a theoretical proponent for passive portfolio management. The validity to the active versus passive debate is critical interpreted. For finding an adequate answer to the question which investment style is preferable, other studies often do tests with success-measurement figures. These figures like return, risk-adjusted return, maximum drawdown etc. shall show which portfolio management strategy is more advantageous. The weakness of such an approach is its reference only to the past. With the help of an entire qualitative theory, the commitment to one of the above mentioned basic investment strategies can receive a more profound appreciation. The research is embedded in the research of the evolution and current significance of passive investment strategies, especially in view of the fact that public pension schemes will not be able to guarantee an adequate living standard for the coming pensioners in Europe. The result is that some of the presented theories are indeed very suitable to gain a sophisticated decision for a special investment approach, although some assumptions are not fully congruent with the reality on worldwide financial markets.

Key words: *passive investment approach, indexing*

JEL code: G11

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New Challenges of Economic and Business Development – 2013

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LOGISTICS MANAGEMENT IN A HYPER-DYNAMIC ENVIRONMENT

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Nowadays systemic logistics management in global production enterprises often seems to be more a myth than reality. In fact volatile markets and fast changing product-market combinations trigger a multitude of challenges making classical logistics planning operations starting to reach their boundaries.

Recent surveys claim a multitude of weak spots in state of the art planning systems and show an insufficient commitment between fixed annual plans and managerial commitment. This is supported by the facts that in logistics management both theoretical concepts and comprehensive empirical studies are still very limited. Furthermore the gap between logistics management research and practical application seems to be expanded to an insuperable level over the last decades.

Therefore this paper creates a generic concept of logistics management in a hyper-dynamic environment based on a comprehensive literature research. The main findings will contribute to develop a collective theory of logistics management and help managers to redesign their logistics planning systems.

Key words: *logistics planning, supply chain management, logistics performance management*

JEL code: D20

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STAKEHOLDER RELATIONSHIP MANAGEMENT IN THE CONTEXT OF CRISIS MANAGEMENT

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A company crisis which does not affect any stakeholder is hard to imagine. Such as considering solely shareholders' interests does not seem to be sufficient either in that regard. On the contrary, typically multiple stakeholder groups are affected and involved – to a varying extent. Stakeholders' needs and demands have to be balanced and prioritized wherever applicable. Professional crisis management and crisis communication may help creating support for and trust in companies by the complete range of its stakeholders.

This research paper works out key success factors for stakeholder relationship management in the context of crisis management. Thereby it considers how professional stakeholder relationship management before, during, and after a crisis helps overcoming the crisis and reducing its impact. The results base on in-depth literature review. An introduction of the fundamental concepts of stakeholder management and crisis management serves as a basis for their consolidation. Practical implication of the paper is to introduce the stakeholder and stakeholder relationship specifications towards crisis management in general and crisis communication in specific. The findings will be converted into instructions for setting up a crisis management plan and corresponding training plan.

The research introduced represents the theoretical part of the author's dissertation. Over the course of its further development, the findings will be applied to the specifications of the hospitality industry.

Key words: *crisis management, crisis communication, stakeholder management, stakeholder relationship management*

JEL code: M100

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POLICY INITIATIVES IN MATERNAL AND CHILDREN'S HEALTH: A CASE OF LATVIA

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Economic development, health and education are indicators of human development index. Health and education are a part of human capital.

In this paper, public policy documents aiming at improvement of maternal and children's health are analysed and conclusions drawn. Methods used are: policy analysis, logical constructive method, interpretation method, comparative method. This research is carried out for the period between 2001 and 2017.

Results can be divided in three groups and be used by different society groups.

First: the quality of policy documents. Target group, which can use these results: politicians and ministry officers.

The quality of policy documents, aimed at improvement of maternal and children's health has improved in time. In "Strategy of maternal and children's health" the financial and human resources for achieving goals are not indicated, the time frame is not set.

In comparison, the "Plan for improving maternal and child health in Latvia" has indicated necessary resources, goals are measurable and specific, timely. The reporting mechanism is developed, responsible and involved institutions indicated.

Second: the trends in maternal and children's health in the period between 2001-2012. These results can be used by doctors and researchers.

Perinatal mortality and infant mortality, rate of abortions are decreasing. The total birth coefficient is increasing. However these indicators are well below EU average.

The causes for poor health indicators are prospective parent smoking, unhealthy lifestyles by children and adolescents, insufficient access to timely and quality care.

Third group of research results, which can be used by NGO's and local-self governments.

Intersectoral collaboration and education is emphasized in "Plan for improvement of maternal and child health for 2012-2014" and "Public health guidelines".

Key words: *policy initiatives, policy documents, maternal and child health, research result user groups*

JEL code: I14

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SUSTAINABILITY AND ORGANIZATIONAL CHANGE

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Today the business environment is changing fast. With the impending move toward globalization and liberalization of markets, organizations have to be prepared to cope with the rapid changes in the business dynamics. Every organization must adapt to the varying demands and changes in the environment. The current global changes today in order to create and maintain a successful and secure organization's image is very important to strike a balance between the financial benefits of an organization, public welfare and environmental sustainability. Sustainable development philosophy and its implementation in an organization can be attributed to fundamental organizational management change. More and more organizations are starting to pay attention to this concept because understood it as a strategic sustainable development benefits. Organizations which manage to successfully implement and performing a coherent action across all three spheres of sustainable development (economy, social, environmental) assuring long-term benefits, business continuity, public support and recognition.

On an organizational level, as many scientists note, sustainable development is a concept – with regard to the extended representation of the firm's assets without harming the environment; a regulation and development process – action in accordance with the principles of social responsibility, transparency, accountability, participation and subsidiarity; and a management method tying together action principles – relationships with the environment and with others market participants; gained new organizational knowledge, a working mode – for strategic analysis, planning, and impact measurement.

Purpose of this paper is to answer the questions: What is the sustainable organization? What are the components of a sustainable organization?

Methodology. In paper is used logical and systemic analysis of scientific studies, situational analysis based on the comparative method.

Results. The paper contributes to a better understanding of the key elements of sustainable organization which implemented sustainable development strategy in its organization management processes.

Key words: *sustainable development, sustainability, organizational change*

JEL code: M10

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New Challenges of Economic and Business Development – 2013

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CONSUMER ATTITUDES AND BEHAVIOUR

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Ability of attitudes to predict behavioural intentions continues to be a major focus of theory and research. This article reviews theoretical framework on attitude and behaviour correlation that experiences significant progress along with the changing environment and covers research that is investigating behavioural differences through various lifestyle segments. Sparkling wine category research investigates consumer attitude to the category and particular brands from a lifestyle segmentation perspective. Through understanding of brands' positions in mind of consumers (brand continuum, brand attraction, image, levers) according behavioural reactions are estimated, evaluating how rational and emotional brand attractiveness influence the intention to act (willingness to buy the brand, to recommend or to pay premium price). The study confirmed that there was a significant association between the lifestyle of the consumers and the brands used. It was concluded that consumers often choose products, services and activities over others because they are associated with a certain lifestyle.

Key words: *attitude-behaviour relation, intention, prediction*

JEL codes: D03, M31

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