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FROM THE EDITOR

Dear Reader,

This is the second issue for 2015 and we expect to be able to publish the next issue in spring-summer 2016.

The authors are both PhD students and established academics. The articles are a heterogeneous set and cover a number of fields in the social sciences such as economic history, management, economics and social work. In this issue we have articles by authors not only from Latvia, but also from Sweden, Lithuania, Germany and Uzbekistan.

We hope you enjoy this issue and are looking forward to the next issue.

Best wishes

Viesturs Pauls Karnups
General Editor

THE GAMES THEY ARE A CHANGIN': NEW BUSINESS MODELS AND TRANSFORMATION WITHIN THE VIDEO GAME INDUSTRY

Ulf Sandqvist

PhD

Abstract

The digital video game industry has established itself as one of the largest entertainment industries rivalling even well-established giants like the music industry and the film industry. The game industry has, however, been going through a transformation period the last couple of years and the development have been turbulent. Numerous game developing companies around the world have shut down. This transformation comes as a number of radical innovations and new business models have been introduced. The article explores the evolution and adaptation of new business models within the video game industry. There has been some recent scholarly work about the new business models within the industry. However, the historical evolution of business models within the game industry is underexplored and the changes have not been adequately linked to the techno-economic development. The aim is to contribute to the understanding of the development and transformation of the digital game industry, with a focus on recent years. Swedish game companies are used as example in this article. Many game developing companies has historically struggled but by adopting new business models, a number of companies like Mojang, King and Starbreeze have reached spectacular successes in the last couple of years.

Keywords: Video game industry, economic history, creative destruction, business model, digital distribution

Introduction

The last couple of years have seen some significant developments in the video game industry. The industry has established itself as one of the largest entertainment industries and the revenues exceeds that of the music industry and the box offices revenues from the film industry (Kücklich 2005). The global video games market is estimated to grow to over USD 80 billion in 2015 (PWC 2011).

The expansion of the videogame industry in recent years is the result of a successful recruitment of new consumer segments: younger children and older adults have started playing digital games to a larger extent. Women

have also become a larger share of game consumers (White and Searle 2013: 31-33). This expansion can in turn be connected to new business models and technologies. Games are available on a number of new platforms and are very easy to purchase – they are never more than a few clicks away. The game industry has taken advantage of the development and even pushed the demand of new technologies. The necessity or demand for advanced computer graphics components would for example be significantly smaller without digital games. Game technology have closely followed the increased capacity and lowered price created by the fulfilment of Moore's law. An effect of lower prices is that many individuals in the rich part of the world often own a multitude of advanced digital devices: computers, tablets and mobile phones. This progress has been so rapid that it is almost hard to comprehend. Mobile phones were not very "smart" and little more than a means to make telephone calls just seven or eight years ago, and powerful computers in 6 millimetre thick tablets were science fiction only a decade ago.

However, it seems like the industry has faced some macro economy challenges lately, and development has been turbulent. Numerous game developing companies have shut down, even some of the more established and high profile game studios have been closed. Electronic Arts, Lucas Arts and Microsoft have terminated or sold many of their game studios. Even the highly acclaimed US studio Irrational Games announced in 2014 that it was going to close down and start a transformation into a smaller studio.

The aim of this article is to contribute to the understanding of the development and transformation of the digital game industry, with a focus on recent years. This article will explore the evolution and adaptation of new business models within the game industry. The last couple of years have seen some research about the new business models (Baumane-Vitolina and Apsite 2013, White and Searle 2013, Hotho 2013, McGregor 2013, Zackariasson 2015). However, the historical evolution of the game industry is underexplored and the changes have not been adequately linked to global macro-economic development. This article will bridge that gap from a structural analysis perspective. According to this theory, the economic development evolves in a few different cycles that are connected to new transformational innovations. The author argues that there are signs that the game industry has entered a new developing cycle and that the industry is in a transformational phase.

Swedish companies will be used as example of the development in this examination. The Swedish industry has historically struggled with profitability (Sandqvist 2012), but by adopting new business models, a number of companies have reached great success in the last couple of years.

Theoretical background – structural analytics, innovations and new business models

Economic historians have through gathering and analysing of historical statistics found recurring macro-economic patterns. The transformation of industries seems to occur in different cycles – for example Juglar cycles, Kuznets-swings, or business cycles.

Joseph Schumpeter (1939) argues that major technological innovations will occur in intervals, and as a result reshape the structure of the economy. Different scholars have periodised these intervals in different ways. Within the Swedish structural analytical tradition Lennart Schön, among others, has found evidence for a roughly 40-year cycle. Schön (2013) divides the cycle into two halves: a *transformation period* and a *rationalisation period*. The cycle starts with a structural crisis and is followed by a period of transformation. New innovations are used to create new economic opportunities in a process that will create new industries and ultimately affect large parts of the economy. When these innovations are well established and their potential is exhausted, a period of rationalisation will follow. Competition and concentration within an industry will increase and companies will seek rationalisations to counter declining profits. According to this theory, the latest cycle started with the structural crisis in the 1970s and the following so-called third industrial revolution transformed the economy by innovations in microelectronics (Sjöo 2014: 99). It is possible that the 2007-2009 financial crisis marked the beginning of a new cycle and that we have now entered a transformation period (Schön 2013: 146-147).

The interest in innovation and entrepreneurship has increased the last decade both in academia and society as a whole. This has generated a renewed interest in Schumpeter since he pioneered the theory of economic development and value creation through innovation. At the heart of Schumpeter's theory is an evolutionary economic system where entrepreneurs can destabilise the market equilibrium by introducing new innovations. Entrepreneurs are constantly finding *new goods, new methods of production, new markets, new sources of supply* and *new ways to organise the industries*, which give them advantages against other actors within the industry (Schumpeter 1934: 66-67). This puts a pressure on companies to evolve. No company is safe and even the most successful and dominant company is threatened by destruction. Companies that cannot transform will lose market shares and eventually be eliminated in the competition with other companies. Foster and Kapland (2001) have studied the development of the largest companies in US during

the 20th century. They show that many companies struggle to defend their position as leading companies and very few manage to produce a higher return on capital than average.

There are different levels of innovations and Dodgson and Gann (2010) classifies them into three categories regarding their impact. The majority of all innovations are rather small *incremental innovations*. These are small changes in a product or service. This is very common within software development. For example, operating systems or web browsers will be updated a number of times every year. These types of innovations do not present dramatic changes to the product, but have as an effect that the product will slowly evolve and become better – for example faster, more stable or energy efficient. *Radical* or *revolutionary innovations*, on the other hand, change the nature of a product or service and are more disruptive. An example of a radical innovation is the introduction of new materials, or new types of digital services like online banking and e-books. The most exceptional and pervasive type of innovation is *transformational innovations*. These are so radical that they will impact and affect the economy as a whole. Good examples of such innovations are new energy sources or means of communication like electricity and digital computers.

Just like scholars have returned to the Schumpeterian theory in later years, there has been an increase in interest in business model theory. Amit, Zott and Massa (2011) connect the interest in business models to the development and popularisation of Internet in the 1990s and the introduction of new information products. Information technology provides opportunities to adopt new business models. Amit and Zott (2001: 511) write that the “[...] business model depicts the content, structure, and governance of transactions designed so as to create value through the exploitation of business opportunities.” A business model can be a form of innovation and lead to a competitive advantage. Prahalad and Bettis (1986) argue that industries tend to have a dominant logic. This logic will influence management decisions in an otherwise uncertain environment, but it also has a tendency to curb innovation and experiments with alternative business models. There can be high costs linked to relearning and companies must also monitor many factors. Many things can change: new economic conditions or innovations can quickly destroy a comfortable and stable economic position. Christensen (2001) writes: “Many of history’s seemingly unassailable advantages have proved transitory because the underlying factors changed.”

The beginning and the formation of a game industry

The first digital games were created on the giant wartime computers that were developed in the 1940s and 1950s. In the Nordic countries for example, several NIM games were programmed on the first mainframe computers in the mid-1950s (Saarikoski and Suominen 2009: 21, Sandqvist 2012: 136). The hardware was rare and expensive and only available at the small number of universities and laboratories where they were developed or that could afford to buy them (Akeru 2002: 63-65, Campbell-Kelly and Aspray 2004: 69-73).

Computers became more common during the 1960s when relatively cheap minicomputers were introduced on the market, but they still cost tens of thousands of US dollars and were thus not available to regular consumers. One of the most famous games from this era was *Spacewar!* (1961) developed by Steve Russell and other members of the Tech Model Railroad Club at the Massachusetts Institute of Technology (Demaria and Wilson 2002: 12-13). Games were a fun distraction for tech students, but no real commercialisation was possible at that time. Russell stated about selling *Spacewar*: “We thought about trying to make money from it for two or three days but concluded that there wasn’t a way that it could be done” (cited in Kent, 2001: 20). However, games were not only simply entertainment; they also had some secondary semi-commercial purposes. Games were sometimes used as a way to promote the computers and as a way to demonstrate their capabilities (Saarikoski and Suominen 2009: 20, Sandqvist 2012: 137). The Swedish company Datasaab, for example, created a game in 1961 simulating a canon trajectory as a showpiece for their computers and weapon systems. Games were also used as a way to teach and explore artificial intelligence (Shannon 1950). In short, despite serving a number of different purposes, digital games were until the 1970s not incorporated into capitalist commodity production.

In 1971, however, the era of commercial gaming started and a game industry was established. The new industry did not directly spring out of the old computer industry, but instead out of the consumer electronic industry and the advancements of integrated electronic circuit technology. The first commercial game was the arcade machine *Computer Space* (1971) from Nutting Associates. The arcade game was not an immediate success, but the very successful game *Pong* (1972) from Atari was launched the following year. Using arcade machines was one of the only viable business models in the beginning because of the high costs for the machines. Users would share the machine and concomitant expenses, which created more revenues for the owner. *Pong* outperformed the traditional Pinball machines, created a demand for more machines and laid the foundation for the game industry (Demaria and Wilson 2002: 20).

The technology evolved, became cheaper and eventually moved into people's homes. Magnavox introduced the first home console, the Odyssey, in 1974 (Kline, Dyer-Witheford and de Peuter, 2003: 90-93). During this first commercial phase, hardware and software development were not separated. Instead, the same companies would develop both. With the introduction of consoles with removable cartridges, and the introduction of cheap home computers in the late 1970s, the industry brought on a new era of gaming and new business models. Activision became one of the very first game developing companies, but many new specialised companies were soon established. New game genres were also being introduced to the market. Kline, Dyer-Witheford and de Peuter (2003: 103) writes: "By the late 1970s not only the technology of the interactive gaming but also its cultural content was beginning to blossom. These were exciting times to be a game designer. Game genres were being invented."

With many new companies and genres the market was eventually flooded with games. However, many were substandard and simply not very fun to play. The most notorious example of this was the disastrous game *E.T. the Extra-Terrestrial* from 1982 (Kent 2001: 239). The game had repetitive gameplay, low quality graphics and a meagre story. The overproduction and the lack of new successful consoles made consumers lose interest in digital games, which led to the big American game crash of 1983-84 (Kline, Dyer-Witheford and de Peuter 2003: 105). The crash almost eradicated the American game industry. However, on the other side of the Pacific Japanese companies had ventured into digital game developing. Companies like Nintendo and Sega took over after the crash and failure of the early US game industry. One important difference between the American and the new Japanese business models was the Japanese introduction of a strict control scheme. No one could release a game for a console without the approval of the hardware developer (Aoyama and Izushi 2003: 427-428). This meant that the quality of the games that were produced increased and became more uniform than before.

Game developing companies had at the same time started to expand their business into publishing. After the development of some successful games, and the subsequent strong financial position, a game developing company could start investing in external game projects. Many of the leading game publishers like Electronic Arts, Activision, Sierra and Ubisoft have their roots in the 1980s game development industry.

With console manufacturers taking control over the possibility to release games for consoles and a number of specialised publishers being established, the stage was set for the business model that came to be dominant in the game industry over the next twenty years.

The business model 1985–2007 – selling physical copies of games

The business model established during the 1980s was based on selling physical copies of games. The consumption side of this model involves competing for *consumer's* attention at a limited amount of shelf space at *retailers*. The production side of this model has been organised around three specific actors: *console manufacturers*, *publishers* and *game developers*.

Within the model *console manufacturers* controlled the console segment of the game industry. Home consoles and handheld consoles were the two major game segments. The market for computer games was considerably smaller – especially in Japan and the US (Rutter and Bryce 2006: 40). Nintendo and Sega from the 1980s, Sony from the 1990s and Microsoft from the early 2000s dominated the console segment. These companies invested enormous sums into development of their console hardware (Aoyama and Izushi, 2003: 426). Competition was fierce and manufacturers often sold their consoles at a loss. They gained back profits from a license fee on every game sold for their console (see figure 1).

Console manufacturer	Developer	Publisher	Distributor	Retailer	Customer
↓	↓	↓	↓	↓	↓
€10	€20	€6	€14	€50	

Source: Rutter and Bryce (2006) p. 45

Figure 1 The digital game industry value chain

Consoles were within the business model proprietary technologies and to be able to release a game, the developer needed permission from the manufacturer. Game developers needed special hardware (dev kits) to be able to develop games and software codes to put on the Cartridge/CD/DVD/Blu-ray disk to make it run on a console. The manufacturers demanded a publisher for all console games, so self-publishing was rarely possible. Console manufacturers built these barriers around their consoles to monitor the quality of games and secure profitability. At the same time, to make a profit, they needed to attract game developers that could create popular games. Successful games sold consoles that in turn created a larger market for the games. This would lead to a positive self-reinforcing spiral (Dymek 2004: 7).

The major problem with all cultural industry production is economic unpredictability and, as a result, the high risk involved in production. Very few products are successful, but the ones that are, often attract large revenues (Hesmondhalgh, 2007: 18). It is very hard to predict in advance how much a product will sell and if it will return a profit. Caves (2003) talks about this as the structural property of “Nobody knows”. Game development is also affected by this insecurity. A myriad of games are released every year, but only a limited number become large commercial successes.

Historically, the *game publisher* had the role to counter the uncertainty. Publishers had the primary role as financiers and essentially acted as venture capitalists within the game industry. A publisher funded a number of game projects in the hope that a few successes would compensate for the low-yielding products. It was risky for a single game developer to bear the full cost of development (salaries, facilities, software licenses and equipment) because it involved a long period of expenditures during development, as well as the uncertainty of gaining back the investment. A commercially unsuccessful game was likely to ruin the company's finances.

When it came to the contract model, game publishers resembled their counterparts within the music industry. Music publishers get, as payment and security for the investment in a band's album, the rights for upcoming albums (Caves, 2003: 78-79). A game publisher would, in similar fashion, demand the rights to the intellectual property, so that the company in the future could develop other games with the same property and maybe capitalise on by-products like merchandise, movies etc.

Games with established brand names tend to sell better than new and unknown titles. If consumers are invested in the brand it creates a kind of consumer lock-in (Amit and Zott, 2001: 506). This is one aspect that can counter uncertainty and the “Nobody knows” structure. The control over intellectual property is therefore crucial within the game industry. All parties involved try to keep or obtain the rights to intellectual properties.

Game developers were the majority of companies within the game industry. Thousands of game companies in many shapes and forms were developing digital games. For game developing companies, there have historically been two choices: get a contract with a publisher or develop your own games. McGregor (2013: 73) calls the first model “Work for hire” and mean that there is a certain safety for the game developer who gets a contract with a publisher because they are paid to produce the game. This is correct, but seems like an underestimation of the value of the ownership and how it influences the power balance within the relationships, because publishers often own the property rights and therefore have the right to cancel a game. If a publisher is not satisfied with the progression it will

pull out, or try to sell the game if the production process is at the final stages. This has happened to a number of well-established Swedish game developers. Starbreeze and Avalanch are two developers who have lost contracts with publishers. Another Swedish company, *Grin*, even went bankrupt after an expected payment for the development of a Final Fantasy game was disputed and finally not paid (Ottsjö 2011).

The latter model, developing your own game, offers a large degree of freedom, but demands a strong financial position. Historically it also hindered the company from entering the console market directly. Within this model, it was important for a game developing company to build some kind of positive reputation. If the company delivered a competitive product it helped them secure funding and contracts in the future. An interviewee at a successful Swedish game developing company said: “when you bring in large profits to your publisher you will get a lot of freedom to do what you want” (Interview A 2012). The goal for many developers was to establish a long-term relationship with a leading publishing company. Such a relationship could then provide a relatively secure income and ensure the development of a number of game projects. A successful game could then lead to financial independence or an acquisition by a game publisher or larger developer.

A version of the traditional model was the *subscription-based model*. A game was then initially purchased by the consumer, but to be able to play the game the consumer also had to pay a subscription fee. This is potentially a highly profitable business model, because a successful game continues to create a revenue stream for the owner. However, few games seem to have been successful with this model. One reason is the fact that the game *World of Warcraft* (2004) has been extremely dominant within this segment and few other games have been able to compete.

Digital distribution 2007–today – new business opportunities

The video game industry has entered into a transformation phase since 2007. New innovations and business models have fundamentally changed the way many game companies finance and sell their games. The traditional business model is still in use, but has become less important because the industry has started moving away from physical copies.

The new technological development has been the driving force behind this change. The last decennium has seen large advances in miniaturisation and network technology. Especially portable technology has evolved and new functionalities have been developed. Portable devices are today often connected to Internet and are capable of facilitating many different services and activities such as payments, navigation and book reading. Mobile

phones and other portable devices have also become a major gaming platform with the capability of running games with advanced graphics, something that just 10-15 years ago could only be done by consoles and desktop computers.

The progression and adoption rate of network technology have opened up for a digital economy. An array of business models has been established around what is often called e-business. Companies have now the potential to try and experiment with new business models (Amit, Zott and Massa 2011: 11). Actors within the game industry have been quick to take advantage of the new possibilities. Game companies and mobile phone developers have built new platforms and distribution channels that have opened up new markets for game developers. Many new business models derive specifically from opportunities that *digital distribution* facilitates. New possibilities have emerged by the transformation from physical form to digital distribution, forms.

Digital game distribution is however not an entirely new phenomenon. Hobbyists and software pirates have used digital game distribution for a long time. Different networks have been used to distribute games since the 1970s (King and Borland 2003: 18). There were some early commercial variants in the 1980s and 1990s. These business models used early dialup systems and special cartridges so consumers were able to download games, but these models were never successful. The pirate platforms like Swedish Pirate Bay or Estonian/Swedish Kazaa were more successful and might in a way have paved the way for commercial alternatives by educating the public and creating an interest for digital distribution.

Successful commercial game platforms were established during the last 5-10 years. The dominant platform for computer games, Steam, was launched in 2003 by the America game company Valve, originally to host Valve's own games, but it slowly evolved into an inclusive platform (Dymeck 2004). Many new game platforms have been introduced in the last couple of years, for example GOG, Uplay and Origin. The different console manufacturers have their own digital platforms built-in with their hardware. Apple, Google and Microsoft have bundled their platforms with their operating systems in a similar fashion. These platforms contain all types of software, but have evolved into major players within the game market. Games are among the absolutely largest categories with hundreds of thousands of titles.

This is a dramatic development and the change has been rapid. Less than 50 percent of computer games sold in 2010 were digital copies, but in 2013 that figure had increased to over 90 percent (Orland 2014). Digital distribution has some specific advantages for game companies. New e-commerce solutions tend to create new standards that can create lock-

in effects (Amit and Zott, 2001: 506). A consumer that has bought many games on one platform has high incentives to stay on that platform. A clear example would be an Android phone user with a lot of games from Google Play, all of which would become useless if the user changed to an iPhone. The different platforms can unfortunately also create lock-in effects for the game developers. A small Swedish game developing company chose one of the new distribution channels provided by a console manufacturer. In doing so, the company became locked into that system. Some of the developing tools had been proprietary and the company later had problems in adapting the game for other systems. A developer at the company says: "The fact was that you had to bundle it [the game] with more software from Microsoft for the game to work. Consumers on Steam would have to download more data [and software packages]. And I think it would not work with DRM and other things you need to run the game." (Interview B 2011)

Digital distribution is an efficient way to take control over the value chain and facilitate a more direct transaction between developers and consumers. The platforms are however not free for game developers. Distributors charge a fee to sell a game through their platforms. Apple, for example, take 30 percent of the price from software sold through their App Store and other platforms take similar amounts. Different companies have also put up different entry barriers. To get on Steam, if your company wants to release a game without a publisher you have to go through a voting process (Steam Greenlight). These types of barriers should ensure a certain level of interest and quality in the released games on the platform. If the service has low barriers of entry, there is a risk of "flooding" and overcrowding of the market space.

Digital distribution also eliminates the second hand market something that is an advantage for the game companies, but not for consumers. A consumer cannot sell a game or give it away after a playthrough. Games are tied to accounts and many platforms have also incorporated copy protection systems to make the games harder to copy.

Social network is also a new digital gaming platform. Baumann-Vitolina and Apsite (2013) writes about *social network games*: "Since it's needed for social network games to have a high functionality based social network, all the preconditions to launch the first game were met only in 2007." A platform like Facebook allows software developers to develop programs tied into the platform. The benefits are very large communities and the games can reach new demographics. Games are also popular on these networks and users spend around 40 percent of their time on social networks playing games (White and Searle 2013: 38).

Digital distribution made it easier to sell *complementary products* or *downloadable content* (DLC) for games. This has become an important part of

many game developers' business models. The ability to sell complementary products can increase the value of a product and is an important part of many successful e-businesses (Amit and Zott, 2001: 504-505). Extra content and upgrades to a game can easily be sold and distributed through a digital game platform. A system like Steam, for example, automatically updates every consumer's game library with patches and upgrades.

Physical games have traditionally had a fairly short revenue period and were then removed from the prime shelf space in the stores. By selling new minor content connected to the game, the periods of revenues can be stretched. The Swedish company Starbreeze can exemplify the possibilities of this model. The company had a volatile evolution under the physical model. Starbreeze developed licenced games for different publishers, but had a hard time generating any larger profits and faced a high level of insecurity when publishers sold games they were developing. After a merger, the company changed strategy and has since generated good profits. Their game *Payday 2* was created to be released with numerous complementary products. The company has sold new missions, weapons and accessories for the avatars in the game. This is today a central part of the company's strategy. Starbreeze writes in a press release: "Our proven strategy has been tested and validated with continuous updates, well-planned campaigns and a solid commitment to our customer base. Re-investing in the PAYDAY-brand and maintaining the product has as planned yielded good results. Our goal to transform Starbreeze from an unprofitable work-for-hire studio to a world-leading, independent and profitable developer has been accomplished." (Starbreeze 2014)

Starbreeze have also tried to grow a community surrounding *Payday 2* and the game has one of the largest communities on the Steam platform. The company have for example offered free upgrades as motivation for gamers to join their community. A company that relies on a persistent strategy with DLCs will benefit from an active community that can sustain the interest over time.

One major effect of digital distribution is the possibilities it has opened up for *independent game developers* by making *self-publishing* easier and a more feasible business model. E-commerce is often an efficient way to do business by distributing information (Amit and Zott 2001). Through digital distribution, a developing company can directly reach and sell to a large number of consumers and does not have to pay for physical artefacts, transportation or retailers. Smaller independent developers have used digital distribution to sell games that are often more limited in scope and that do not need extensive or expensive development. This also limits the need for large developing teams. This resembles the situation up until the 1990s. It is today, again, possible to start a small studio with only

a couple of employees (Hotho 2013: 90). The trend from the 1990s has been towards larger studios producing giant productions.

At the same time there have been some economic push factors. It seems like publishers have been more restrictive with projects after the financial crisis in 2007. Publishers have become more selective, leaving many game companies in a difficult situation. Many game studios have also shut down – for example Psygnosis, THQ, Xbox Entertainment Studios, LucasArts and 38 Studios. One of the largest Swedish game developers, Grin, went bankrupt in 2009 after disagreements with the publisher about payments for their projects (Sandqvist 2012: 146). Some major publishers have also been struggling and one of the larger US publishers, THQ, went bankrupt in 2012.

The financial crisis might also directly have helped the liberalisation for self-publishing. Hotho (2013: 90) stresses the point that technological changes have opened up for independent developers, but this is also related to significant policy changes made in recent years by console manufacturers. Self-publishing have historically only been allowed on older console generations after the release of a new generation. The console manufacturers have changed their policies and they are letting game developers self-publish. Sony has for example allowed self-publishing for the new PS4 console. This is possibly connected to the financial crisis and the subsequent prolonged console cycle. The result has been a lack of major game releases for the new consoles (Kain 2014). Allowing self-publishing is a way to compensate and generate additional revenues.

The old subscription model has in recent years been challenged and it has been hard for companies to attract consumers to pay a monthly fee. A recently utilised and more successful model is the *free to play* model: The game is as the name indicates free to play, but consumers are offered different kinds of extra content through micro-transactions. The game company offers perks and digital artefacts that can help and enhance the gaming experience. The benefit is that small companies can attract players to their game and then potentially create revenues later through small transactions. One of the most successful Swedish companies is King who has developed the game *Candy crush*. The owners could launch a successful stock market launch on NYSE in 2014 for a value of over 7 billion USD (McGrath 2014).

A business model that was not possible within the old paradigm with physical copies is to *sell a game during development* or *early access*. Companies sell the game before the actual release and let gamers get access to the unfinished game. By selling an unfinished game, the company can get revenues long before the game is finished. This can close the time gap between initial expenditures and the income from game sales.

Mojang, the Swedish game company that developed *Minecraft* (2011), have successfully used this model. A positive benefit of this model is also that the company gets free game testers that can find and report problems and bugs in the game. If the users are invested in the game they might even support the company by giving suggestions about the game, such as potential desired changes and new features. The company gets valuable feedback that could otherwise be hard or expensive to acquire.

Crowdfunding is a new phenomenon just recently utilised by the game companies. Internet sites like Kickstarter.com or Indiegogo.com have been established in the last couple of years to facilitate crowdfunding. These sites have helped fund many small game developing projects, but a number of larger projects have also been successful. About twenty game projects have to date raised more than one million USD each through the [Kickstarter](http://Kickstarter.com) site (kickstarter.com/discover).

Crowdfunding has many benefits for game developing companies; they can get a fairly undemanding form of financing, by tying up consumers to the product at a very early phase. The campaign might also generate some publicity for the game. The company will often combine crowdfunding with some kind of early access scheme. It is a cheap perk to offer to the backers and the crowdfunding campaign and the company can then also take advantage of the early access model. However, crowd fundraising campaigns through one of the platforms is not free. For example, [Kickstarter](http://Kickstarter.com) takes five percent out of the collected funds. There is also a fee to Amazon Payments for the payment system, a cost that is around three to five percent (kickstarter.com/help).

Conclusions

A number of innovations and new business models have been introduced in the game industry since 2007. At the core of this development is the success of commercial digital distribution platforms. The economic benefits of digital distribution will most likely convert all software development away from the physical business model. Changes in the game industry have happened as the economy as a whole was hit by the financial crisis that started in 2007. It was the deepest global economic crisis since the 1930s and generated large insecurity and turmoil throughout the whole economy. It seems this accelerated the transformation of the game industry. During a couple of years it became hard or even impossible for some game developers to find financing for new game productions. Publishers terminated existing productions and many game developing studios were forced to close down. It would be relevant to know how many in the wave of the new independent game developers actually started by choice.

Digital distribution has opened up for a genesis of new business models. These models deal with problems regarding financing and facilitating a shorter value chain by circumventing publishers and retailers. Self-publishing has become easier with new technology and policy changes made by console manufactures. There are still risks when financing and publishing one's own games, but if the company can sell a game during development or through crowdfunding the financial risk is shifted over to the consumers.

With the changes follows a new form of division of labour within the industry. Cultural industries have traditionally been organised to create a division between the artistic expressions and profit generating activities (Caves 2003). When game developers are taking over publishing functions this division breaks down. Developers will then have to require new skills like marketing, intellectual property management and community relations. All forms of communication will be central to a durable strategy with downloadable content and getting potential consumers interested in the game during development.

The overarching effect of the recent development seems to have been a new form of stratification and at the same time an expanded scope of the game industry. The old model is not dead and there are still giant productions by large developing teams, but there are now also numerous smaller companies producing niche games.

Finally, the structural analysis theory might be a useful tool to understand and frame the game industry. The game industry is one of the new industries emerging from the transformations period in the 1970s. Today, 40 years later, the industry is transforming again after a new economic crisis. If one assumes that the theory is correct, what we see today is just the beginning. The transformation period will last and we are likely to see many more innovations and changes within the game industry over the next 10 years. Advances in virtual reality, voice recognition, artificial intelligence and open source software and hardware will most likely affect and change the game industry even more in the near future.

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BUILDING PSYCHOSOCIAL RESILIENCE IN YOUNG PEOPLE: THE POSSIBILITIES OF FORUM THEATRE

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Abstract

This article is focused on Forum theatre as a tool to develop youth's psychosocial resilience within the field of social work. The principle objectives of the study are to clarify the range of skills and abilities enhanced by the Forum theatre method, to specify the indicators by which these skills and abilities are measured and to explore the final impact on youth. The study demonstrates that the Forum theatre method helps to develop empathy and also has influence on the ability to accept others, self-esteem, self-efficacy, self-control and collaboration skills.

Keywords: Youth, Forum Theatre, Psychosocial resilience, Interactive methods, Experiment

Introduction

Social work with youth should especially focus on meaningful leisure time: activities should grant everyone's participation and involvement, as well as it should influence the personality of a young individual. It was noted that youth are especially attracted by the untried interactive methods (Gervais 2006). These methods help youth and children cope with the adverse challenges of life, enable them to act, influence their psychological and social wellbeing in a more effective manner (Duncan & Arntson 2004). When selecting such methods both form and content need to be reflected on: the activity must have clear goals (Barcelona et al. 2011) and be adequate to the challenges of the developmental stage. As a method, Forum theatre meets both conditions and is characterised not only by

an interactive activity that attracts youth but also by the employment of themes that are relevant to them: the change of roles, the responsibility issues, the self-expression, the independence, the injustice. A purposeful analysis of these topics helps to develop certain skills that contribute to a more effective formation of resilience strategies and ways (Henley et al. 2007; Henley 2010).

R. Mazzini and M. Wrentschur (2004) in discussing the possibilities of the use of Theatre of the Oppressed, pointed out that this type of social theatre is not only a collection of methods and techniques: it has a complex philosophy and a general concept stemming from the idea that a theatre can become a tool for empowering people and can lead to changes. It is actively used as an effective means in preventive, educational work or in dealing with various problems of living together (Odierna & Letsch 2006). According to A. Boal (1989), Forum theatre is overall a tool helping people to find ways to change their reality and the society using theatre. A Forum theatre performance is equated to a sociocultural intervention which always brings new ideas and actions (Mazzini & Wrentschur 2004).

Although Forum theatre, similarly to the other methods of social intervention, has its own concept, structure, rules and working phases, it is a flexible method and is therefore easily applied to various areas of social work. In the literature various projects and their achievements are described quite widely (Odierna & Letsch 2006; Klosterkötter-Prisor 2005; Houston et al. 2001); the case studies focused on a specific single case/project description dominate, and the results are often represented as specific and tangible changes or actions. However a more complex cognition about the inner changes of the personalities is absent. Youth programs that offer the non-traditional methods based on a non-formal education often face a challenge; it is difficult to prove their effectiveness because it is not evident what empirical methods one has to apply in order to measure changes; as a result the descriptions are often limited to the episodic case reports. It is the most difficult to prove the impact of such methods on the inner changes as there is neither a common opinion about which factors have to be measured nor the verified instruments of the required measurement (Duncan & Arntson 2004). As the impact on the various personality aspects are not established, difficulties might arise trying to prove reasonably the effectiveness of the method. For this reason the authors have chosen to undertake a multi-layered study in order to clarify which skills and abilities are educated, to identify the relative indicators as well as to test instruments that would measure the impact of Forum theatre method in its application to the social work with youth.

Impact of Forum theatre on psychosocial resilience

For a broader understanding of the method, as well as for a better preparation of the core instrument of study, a qualitative study was achieved referring to: 1) semi-structured interview/survey of the experts – Forum theatre practitioners ($n=7$) in order to reveal the experience of using the method, the opinions of experts, and the convergence of theory and practice; 2) the written reflections of the members (age 16–23) from troupe of the Forum theatre that is based in Lithuania ($n=4$) in order to reveal the impact of the method.

The data we collected was analysed according to the qualitative content analysis (Shannon & Hsieh 2005).

One of the objectives of the introductory qualitative study was to clarify the benefits of the Forum theatre method and highlight the abilities it develops. During the interview analysis the authors have also distinguished the indicators to ascertain the effectiveness of the method. They have distinguished these main abilities and skills developed though the Forum theatre practice:

- *Empathy*. There is a possibility to look at situations from aside: *“this Forum theatre at least shows as if at the cinema or in front of the mirror, how this cruel situation actually happens in life.”* The Forum theatre method influences the sense of empathy: interest into the other person, a deeper understanding about the point of view of the other person. Such an experience provokes new behavioural models, as well as corrects the existing ones. According to Corsini (2002, 327), one can define empathy as the *“objective awareness of another person’s thoughts and feelings and their possible meanings”*. Empathy consists of 4 main elements: (1) ability to different perspectives (a tendency to spontaneously adopt the psychological point of view of others) (2) imagination (a tendency to transpose themselves imaginatively into the feelings and actions of fictitious characters), (3) empathic concern (*“other-oriented”* feelings of sympathy and concern for the unfortunate others), (4) personal distress (*“self-oriented”* feelings of personal anxiety and unease in tense interpersonal settings (Davis 1983). When studying the relative literature it is obvious that the most important intertwining concepts are those of self-esteem and empathy. As Garaigordobil (2009) states, empathy shows a positive association with most social behaviours that facilitate socialisation.
- *Self-esteem*. Participants of the Forum theatre intervention can share their opinions and be accepted *“it was the first time when someone asked me how I felt, when someone was really concerned”, “it is gratifying to feel that people accept you as you are”*. These experiences form a basis to the increase of self-confidence: *“a stronger opinion, a broader approach*

to problems and their resolution, an active participation". Self-esteem is defined as "an attitude of self-acceptance, self-confidence, self-approval, and self-respect" (Corsini 2002, 877). One can thus state that the Forum theatre intervention creates situations in which elements of the self-esteem of the participants could be enhanced. The literature reveals that self-esteem is ubiquitous and has been related to almost every variable in various researches (Blascovich & Tomaka 1991; Crandall 1973). The studies that explore the links between empathy and self-esteem (Garaigordobil 2009; Ceylan et al. 2009) showed that empathic persons have a higher self-esteem.

- *Self-efficacy*. Forum theatre attempts to provoke emotions and feelings of the participants, to encourage them to assume responsibility for the events around them. The participants face situations in which self-efficacy is required: "in real life maybe you just pass by and you don't look, do not try to go into the heart of the matter, and here you are simply made to see how dreadful it is when it is not tolerated". The participants reflect on the social environment, their reactions or the lack of reaction in different situations. The participants get a reflection about how she/he acts in a certain situation, what roles she/he assumes and what influence the chosen role has on the situation: "maybe I'm neutral when I get into life situations... instead I could do something to become more active, to change something in order to stop the oppressor or for some problem not to occur." The participant can thus think about situations in which her/his interference is effective and necessary. This way self-efficacy is enhanced as it is defined as the "judgment about one's own capabilities to organize and execute courses of action required to attain designated types of performances" (Corsini 2002, 877). In many researches self-esteem and self-efficacy are investigated as co-dependent variables (Judge et al. 2002; Judge et al. 2000; Judge et al. 1999; Gully & Eden 2001).
- *Self-control*. Quite often the participants were surprised by the consequences of their behaviour, and how it is valued by others or how it looks from aside: "when there is a reflection, discussion, and you ask a question, then he gets surprised, "did I do like that?!" Shortly, he gets the shivers and cannot believe that it was him who acted that way." This way the self-control of a person is exercised. Self-control is "an ability to be in command of personal behaviour, and to restrain or inhibit personal impulses" (Corsini 2002, 876). The study of Tangney, Baumeister & Boone (2004, 280) showed that "high scores on self-control are correlated with the higher relationship quality, enhanced empathy and a willingness to forgive". High self-control predicted better perspective-taking and less proneness to wallow in personal distress. Judge et al. (2002, 694) state that their conclusions suggest "a substantive overlap between measures of self-control and self-esteem".

- *Collaboration skills.* Forum theatre creates a sense of belonging: the participants see that solutions of certain situations lay within the collaboration between them and that every member's contribution is needed: *"That also helps to understand that even if it is difficult to solve certain problems because it requires time and quite some effort, it is always possible to find a way out of the problems in a team."* It is especially important when a discussion connects seemingly different segments, (e.g. teachers and students) for a common action and the understanding of each other, which, as a result, forces them to react together. Collaboration is *"an interpersonal relationship that combines cooperation with the aware of the needs of another person"* (Corsini 2002, 184). The research of Czerniawska (2002) presents the empirical data which demonstrates that empathy is associated with the increase of probability of helping and cooperative behaviours. The study of Norem-Hebeisen & Johnson (1981) clarified the relationship between attitudes toward the styles of social interdependence and the ways of deriving self-esteem among students. The research results show that *"students who indicate a cathexis for cooperative relationships report patterns of a higher self-esteem that is a foundation for the freedom of personal expressiveness and the feelings of personal well-being"* (Norem-Hebeisen & Johnson 1981, 415).
- *Ability to accept others.* This is a basis for tolerance: *"opinions of everyone are to be respected and to be accepted, and that is stressed."* Taking on the actor's position, the participants try to empathise with the role of the other, as well as to see the situation through the context of the chosen personage. This view invites the members to reflect on how the situation might be perceived by the others; the differences between the opinions are contemplated in order to be better perceived. It also inspires a discussion in which different point of views about problematic situations and their dynamics are shared. Acceptance is a receptive, approachable, caring quality of people who demonstrate respect and regard towards other individuals. In general, it is a favourable attitude towards an idea or a person (Corsini 2002). Becker & Zarit (1978) found the correlations between acceptance of others and the changes in empathy and warmth (benevolence). Baldwin et al. (1987) state that the research and anecdotal literature describe a positive relation between self-esteem and acceptance of others. *"A favorable view of oneself is assumed to be associated with the favorable views of others. The authors also point out that self-esteem is related to willingness to collaborate"* (Baldwin et al. 1987, 107).

The analysis of the previous research shows that self-esteem and empathy are the core personality traits. They not only relate between themselves but are linked with self-efficacy, self-control, and ability to accept others and collaborate. The authors conclude that these skills are

extremely important in the developmental process of the psychosocial resilience. The concept of the psychosocial resilience in this context describes a phenomenon in which the personal abilities and traits that are needed in order to resist against the damaging effects of the environment, minimizing its emotional damage on the individual, are combined with the personal qualities that lead to a better communication and a more effective integration into society.

Structure of study

After completing the analysis of the data of the introductory qualitative study the authors proceeded with the main study – a quasi-experiment – in order to explore the created instrument by measuring the impact of the Forum theatre on the youth in the development of the psychosocial resilience. The study consisted of 6 steps:

- I. Selection of the experimental and control groups.
- II. Pre-testing both groups.
- III. Intervention using the method of Forum theatre in the experimental group (the same day as the pre-test).
- IV. Collecting the reflections of the Forum theatre performance participants.
- V. Second testing of both groups: a week after the pre-test.
- VI. The analysis and evaluation of the data.

Participants

The emphasis was focused on young participants aged 16 to 24 years. The authors chose the participants randomly by sharing the information about the performance in public places. This is the reason why the authors could not predict the final number of the participants and the distribution of the various socio- demographic characteristics among the participants. The event brought together 46 participants. Three participants did not meet the age criteria. After the experimental group was selected, a control group was matched (Duncan & Arntson 2004) from the people who had never participated in a performance of Forum theatre. The participants were matched according to gender and age (see Table 1).

Table 1 Characteristics of the participants in experimental and control groups

	Experimental group	Control groups
Number of participants	43	43
Women	86%	86%
Mean of age	21.7	21.7
Range of age	16–24	16–24

Methodology

For both first and second testing the participants were given a questionnaire. The survey consisted of four blocks of questions. The first block aimed to measure the level of empathy. For that, the Interpersonal Reactivity Index (Davis 1980) made of four subscales measuring different aspects of empathy – empathic concern, perspective taking, personal distress and imagination – was used. Each subscale consisted of seven items ranging in a 5-point scale from “Does not describe me well” to “Describes me very well”.

The Control-Individual Protective Factors Index of Phillips & Springer (2005) was used for the second block of questions. We used three subscales that aimed to measure self-efficacy, self-control and ability to collaborate of the participants. Each subscale is made of a 4-point scale.

Rosenberg Self-esteem Scale (2006) was used for the third block of questions. It consisted of 10 items ranging in the 4-points scale from “Completely agree” to “Completely disagree”.

Acceptance of Others Scale of W. F. Fey (1991) was used in the fourth block of questions. It consisted of 20 items ranging in a 5-point scale from “Very rarely true” to “Almost always true”.

The data analysis was made using SPSS program. The results were also supplemented by the reflections of the participants.

Intervention

In the experimental group, the pre-test was accomplished a half an hour before the actual Forum theatre performance, and the post-test after a week. The participants could provide the written reflections about their participation in the Forum theatre performance. The control group was given to fill the same surveys as the experimental group. The post-test was done one week later filling the survey electronically. When organising the quasi-experiment, the researchers collaborated with the Forum theatre troupe. This troupe consisted of the non-professional actors, aged 15–20 years who were led by a professional actress. A single performance (one and a half hour long) of the Forum theatre was organised.

Conducting a matched sampling (Duncan & Arntson 2004) and single performance, the authors chose three topics before the performance: bullying at school, domestic violence, and discrimination. This decision was made considering to the main challenges of the Lithuanian society and the data about the adolescent well-being from the World Health Organization annual report 2009/2010 (Currie et al. 2012). The authors used the following form of intervention:

- ice-breaking, clarifying the rules;

- introduction to the first scene, the personages were presented. The theme of this scene was bullying at school. The situation: a boy was bullied and hit by a few pupils because of being shy while the others were just watching the situation. After the performance, the joker moderated a discussion. Then the scene was repeated for two times and three participants stopped the action and changed the personage looking for ways to solve the situation. After a few discussions and attempts, a positive solution was found;
- introduction to the second scene, the personages were presented: a mother and father, daughter and son. The theme – domestic violence. Situation: during a family dinner father became aggressive and abused his wife while the children were watching the situation. The scene ended the son leaving the room. After the performance the audience was shocked by the scene. A discussion erupted between the audience and the personages. The audience tried to encourage the son to take action and seek help. Then the scene was replayed. The solution offered by the audience was a list of institutions which provided help in case of the domestic violence;
- introduction to the third scene, the personages were presented. The theme of the scene – discrimination. A situation in the park: two homosexual men were attacked by a group of teenagers while some other people were passing by. After the performance the reactions of the audience were very tumultuous because of the injustice they saw. Instead of replaying the scene the audience expressed their feelings and talked about the stereotypes.

The study results

Discussing the results of the study it is important to note that the psychosocial resilience is a complex and heterogeneous phenomenon. It includes various factors and personal traits that help to resist against the negative impact of the surroundings. On the basis of the previous study based on interviews with experts, we decided to evaluate the following aspects of psychosocial resilience: empathy, self-efficacy, collaboration skills, level of self-control and ability to accept others. After analysing the data it was noted that there is a statistically significant relationship between some of the studied elements (Table 2). These correlations are significant at the .01 level (2-tailed). As the latter two are inter-correlated it validates the assumption that when one of the abilities has been developed the other abilities can simultaneously improve. According to the statistics a willingness to collaborate demonstrates most links with the other elements of the psychosocial resilience such as empathy, empathic concern, self-esteem and self-efficacy. There is also a statistically

significant relationship between self-efficacy and an ability to take on the other's perspective, as well as is related to high self-esteem.

Table 2 Inter-correlation between the elements of psychosocial resilience

	Empathy	Empathic concern	Self-esteem	Self-efficacy
Collaboration				
Correlation Coefficient	.485	.531	.327	.478
Sig. (2 tailed)	.001	.000	.001	.001
N	43	43	43	43
Taking perspective				
Correlation Coefficient				.339
Sig. (2 tailed)				.001
N	–	–	–	43
Self-efficacy				
Correlation Coefficient			.503	
Sig. (2 tailed)			.001	
N	–	–	43	–

Empathy

One can see from Table 2 that empathy is related to the ability to collaborate. The correlation between these two elements is statistically significant and reciprocal. The authors therefore conclude that developing empathic abilities has influence on the formation of the collaboration skills. When the pre-test and post- test results of experiment and control were compared, it was inevitable that the empathy level of the experiment group participants was, according to the statistical results, significantly (Sig. 2-tailed less than 0.000) increasing, compared to the control group (see Table 3). One can hence assume that the effect of the method is revealed through the increase of the sense of empathy.

Table 3 Change of elements of psychosocial resilience in the control and experiment groups

Indicator	Average					
	Control group			Experimental group		
	Before	Afterwards	Change	Before	Afterwards	Change
Empathy	69.53	69.09	0.44	70.26	74.74	4.49
Fantasy	18.47	18.14	-0.33	17.44	19.33	1.88
Empathic concern	18.7	18.51	-0.19	19.37	20.51	1.14

When looking at the results of the study in a more detailed manner one can see that almost all elements of empathy have statistically increased. This can be explained according to the principles of the method effect. The Forum theatre method makes the participants face a true and actual reality: to see the actual problems and their possible consequences, to question the motivation behind the actions, as well as practically experience them getting into the shoes of the various roles (the oppressor, the victim, the neutral personage). The method permits to lively demonstrate how certain behavioural models relate to the consequences they provoke; it encourages the spectator to use his/her imagination in order to assess a scale of potential consequences caused by his/her attitudes, actions or the lack of action in a certain situation.

Fantasy

The results of the study demonstrate that this method is effective in developing a broader fantasy: the level of imagination of the experiment group was statistically significantly (Sig. 2-tailed 0.000) rising after the Forum theatre performance, compared to the control group (Table 3). The results are illustrated by the thoughts that the participants shared after the performance. The participants were not passively observing but were concerned as well as mentally engaged with the problematic situations: *“while watching how the actors play, I was constantly thinking, what I would do, how would I act.”* As a result, the participants recognized themselves as more aware – their understanding and evaluation of the situation of others improved: *“this performance made me see the situation from another perspective: I understood that it is very easy to condemn, to judge and blame, but it is very difficult to be insightful about the situation of another person.”*

Empathic concern

It also statistically significantly (Sig. 2-tailed 0.005) increased in the respondents of the experiment group (see Table 3). One of the participants said: *“the situation at school scared me. I understood that I had never before paid enough attention to similar situations involving violence and bullying.”* A better look at the motivation and the actions of the personages helps the participants to recognize reality in the performed situations. Stepping back from the situation, bringing the problem into the light, an access to empathy and comfort are the first steps towards the change of unwanted situation. As a consequence it allows compassionate attitudes to appear. As it was mentioned above, the study revealed that the empathic concern influences person's collaboration skills (see Table 2). The ability to see the situation through the eyes of the other, to understand his/her feelings and experiences, makes the collaboration

more effective (it is easier to reach a compromise etc.). This means that the development of the empathic concern can positively influence person's collaboration skills that influence his/her sense of belonging to a team or community: it is easier to be banded together in order to reach a common goal.

Perspective taking and personal distress

These are the two elements of empathy in which no statistically significant change was found. However the method's impact on these two elements should not be underestimated. The reflections of the participants refer to the latter qualities as well. One of the participants shared his/her experience about the performance: *"when I see such a scene, I feel pain together with the victim's personage."* Another participant told: *"I was shocked; several times I even became agitated by what I saw."* The ability to feel discomfort as a reaction to the painful experience of another person is called a personal distress component of empathy.

Self-control

Self-control is closely related to the perspective taking (Table 2). The data analysis does not show a significant change in self-control. However, in some reflections we can draw a link to self-analysis: *"Forum theatre gave me a possibility to look at myself more closely and to think about the problem solutions I normally choose and why."*

Self-efficacy

The study has demonstrated that self-efficacy is related to self-esteem and the collaboration skills: the correlation between these elements was statistically significant (Table 2). During the study the statistically significant change in self-efficacy was not apparent.

Self-esteem

People who adequately value themselves are able to view themselves critically and are more realistic about their possibilities. Self-esteem is a necessary condition for success. Nevertheless it is evident that the self-esteem should influence self-efficacy (this was supported also by the study data (Table 2)) there was no statistically significant change identified. Self-esteem remained relatively stable: we assume that this might have been influenced by the fact that the most participants of the experiment group (82%) had an adequately high self-esteem even before the performance. Six participants with an inadequately low self-esteem scored higher after the Forum theatre performance and reached

the level of the adequate self-esteem. A similar effect was observed with the two participants of the inadequately high self-esteem: after the performance the level of their self-esteem decreased and reached the level of the adequate self-esteem (Table 4). All other indicators of these participants did not differ from the rest of the group.

Table 4 Change in self-esteem of the experiment group participants with an inadequately low/high self-esteem

Self-esteem	Average		
	Before	Afterwards	Change
Inadequately low	11.8	15	3.2*
Inadequately high	27.33	24.67	-2.66**

* Sig. (2-tailed) 0.051

** Sig. (2-tailed) 0.371

Ability to accept others

It is interesting to note that the groups had a quite high number of people with a comparatively low ability to accept others (67% in total). The study results show that there were no significant changes in this ability after the performance. This was overall surprising because after the analysis of the literature and the interviews of the experts the authors expected that the Forum theatre performance would have left a significant influence regarding this factor. The reflections of the participants showed that some prejudices were nevertheless cogitated: *“The Forum theatre performance altered my attitude towards homosexuals. It is easy to not like those who in reality are not nearby you.”*

Collaboration

The authors assume that using the Forum theatre method as a means to develop empathy the collaboration skills also improve. This is suggested by the statistically significant correlation between these two skills (Table 2). Although the study data shows that the collaboration skills of the group members did not change the authors do not discard a possible effect of the method concerning these skills. The factor that might have influenced the results of the study is, according to the pre-test results, that all the members of the experimental group had already had a high level of collaboration skills.

Discussion and Conclusions

The purpose of the study was to investigate whether Forum theatre can be used as a social intervention tool while working with young people. The main purpose was to clarify what skills and abilities were being educated, collect the information about the indicators and examine the instrument measuring the impact of the Forum theatre method in the field of social work with young people.

The introductory qualitative research helped us to identify 6 elements which could be treated as the major inner impact areas of the Forum theatre. It is self-esteem, empathy, self-efficacy, self-control, acceptance of others and collaboration. Comparing these results to the previous researches and scientific literature we propose the six elements are to be directly associated with psychosocial resilience. The results of the quasi-experiment helped us to provide a pilot review of the impact of a single Forum theatre intervention to examine the 6 elements of the psychosocial resilience and discuss a possible relationship among them.

According to the results the authors can state that even a single and a quite brief Forum theatre performance has significantly influenced the level of empathy of the participants (especially the following elements of empathy: fantasy, empathic concern). Compared to the pre-test and the control group results, the change was identified to be statistically significant. The authors can also state that the Forum theatre performance has normalized participants' self-esteem (higher self-esteem became lower, and vice versa; normal self-esteem remained unchanged). Any significant changes in self-efficacy, self-control, acceptance of others and collaboration were not proved. However the participants' reflections gave insinuations about such impact.

After the comparison of the results of our research with the results of the previous researches (that are discussed at the beginning of the article), we can draw a hypothesis, that if a single Forum theatre performance is enough to influence two basic psychosocial resilience elements (self-esteem and empathy) in the group which was constructed on a matched sampling basis, then by systematically repeating the Forum theatre performances in a long period of time the other four elements of psychosocial resilience are likely to change as well. The basis for such a hypothesis stems from the previous researches which have indicated a relationship between self-esteem and self-efficacy/self-control/acceptance/collaboration, as well as a relationship between empathy and self-efficacy/self-control/acceptance/collaboration.

The author's research has demonstrated what influence the Forum theatre's intervention has had on the psychosocial resilience of young people. It is important to continue the research in this field in order to

prove the effectiveness of the Forum method in social work. The research instrument measuring the impact on the psychosocial resilience should be developed and tested with a more precision. The set of the questionnaires used in the author's research could serve as an outline for the future research and must be improved, refined and validated. Most questions poses the acceptance of others scale (Fey 1991) as well as its results. During the experiment the significant change in acceptance of others was not found. It might have been influenced by the duration of the performance. On the other hand, it is noticeable that the low pre-test results were different from the quiet high pre-test results of empathy and self-efficacy. As a conclusion the authors assume that a more elaborate research is needed in order to find a better measure to test the acceptance of others. The authors have also noticed that the Interpersonal Reactivity Index (Davis 1980) showed a change of empathy in the experimental group but the impact on the self-efficacy, self-control and self-esteem was not significant. Notwithstanding the authors believe that it is important to continue the research by according scales the authors proposed.

It would be also useful to research the effect of a long-term intervention employing the Forum theatre method. The authors hypothesise that a long-term intervention would influence the impact on the psychosocial resilience elements. The attention should be paid to the sampling of participants. The pre-testing demonstrated the quiet high level scores on the psychosocial resilience elements of the participants hence the authors presume that it could influence the post-test results. It is possible that for this reason many significant changes were not found. However the authors assume that a long-term Forum theatre intervention would encourage those with the quiet adequate results to maintain a desired level of the psychosocial resilience. The authors think that it is also important to examine the impact of the Forum theatre to psychosocial resilience within a wider perspective of time. The future research should be more concentrated around the relationships between the psychosocial resilience elements. It would allow exploring of the relationship and influences between elements of psychosocial resilience, as well as it would assist in the organisation and planning the Forum theatre performances.

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LATVIA AND INDIA: ECONOMIC RELATIONS 1918–1940¹

Viesturs Pauls Karnups

Dr. oec.

Abstract

This article provides an overview of Latvian-Indian economic relations in the interwar period. Latvians had knowledge of India at least since the middle of the 19th century, mainly through missionary reports and translations from English newspapers. For most Indians however, Latvia was *terra incognita* until the late 20th century. In the interwar period economic relations between Latvia and British India were mainly confined to foreign trade. Although Latvia declared its independence in 1918, trade with British India did not commence until 1924. It ended with the outbreak of WWII in 1939. Latvia's foreign trade in relation to British India was more or less regulated by Latvia's 1923 treaty with Great Britain, as well as the 1934 Commercial Agreement between the Government of Latvia and His Majesty's Government in the United Kingdom, which had an Article that allowed for the continuation of previous arrangements under the previous treaty. Latvia's main imports from India in the interwar period were furs and hides, rice, coffee and tea, jute and cotton, nuts and seeds, spices and condiments, whilst Latvia's main exports to India were plywood, timber and timber products, paper and paper products, and lubricating oils.

In general, despite a growth in trade in the late 1930s, trade and thus economic relations were of marginal significance to both countries in the interwar period.

Keywords: Latvia, British India, Interwar, Trade, Import, Export

Introduction

For most Indians Latvia was *terra incognita* until the late 20th century. However, Latvians had knowledge of India at least since the middle of the 19th century, mainly through travellers' tales, missionary reports and translations from English newspapers. In the Latvian newspapers of the time they read about the Indian Mutiny² and the "Great Game" (a term for the strategic rivalry and conflict between the British Empire and

¹ A version of this article was presented at the international conference: *International Scientific Network Latvia – India*. Rīga, 28–30 May, 2015

² For example, *Mājas Viesis*, No. 107, 1857, pp. 318-319

the Russian Empire for supremacy in Central Asia).³ In the interwar period a large and lively interest in India was exhibited by the intelligentsia, particularly writers, historians and linguists. The former were interested in Indian literature (both ancient and modern), in particular Rabindranath Tagore⁴, whose works were originally re-translated into Latvian from English translations and later from the original. The linguists were interested in the Sanskrit language and its relation to Latvian and for some historians this developed into attempts to prove that the original homeland of ancient Latvians was India.⁵ In addition, Latvian newspapers regularly reported on the struggle for independence in the interwar period, particularly in the social-democratic newspapers.⁶

After the First World War and the collapse of the Tsarist Russian Empire, it is reported that some 500 Latvians had ended up in British India.⁷ They were mainly ex-soldiers from the anti-Bolshevik White Army. They were scattered all over British India, mainly in Bombay (Mumbai) and Calcutta (Kolkata), but also in Simla (Shimla), Benares (Varanasi), Jaipur and Kashmir. They worked as plantation managers⁸, overseers and foremen workers. Most returned to Latvia in the early 1920s.

Latvia's first missionary to South India was Anna Irbe (1890–1973). In 1933, she founded and developed the mission station of “Karunagarapuri” near Coimbatore in western Tamil Nadu.⁹ Irbe envisioned Karunagarapuri as a unique Christian centre, a holistic, self-supporting community where evangelistic, social, educational, medical and agricultural activities all took place. She compiled a prayer book with lyrics called *Jebamalai* (prayer garland), following the “Indianisation” of worship. This *Jebamalai*, revised and recompiled, is still used today in the Tamil Evangelical Lutheran Church.¹⁰

Latvia also had a number of honorary consuls in British India¹¹. In Bombay (Mumbai): 1929 III – 1933 VIII Oliver Turton and 1938 II – 1940 VIII

³ For example, *Rīgas Lapa*, No. 50, 1878, pp. 1-2

⁴ For example, *Rītums*, No. 1, 1922, pp. 46-51

⁵ For example, *Zeltene*, No. 5, 1936, p.4

⁶ For example, *Sociāldemokrāts*, No. 7, 1932, p. 8

⁷ *Tautas Balss*, No. 6, 1921, p. 2

⁸ See *Latvijas Sargs*, No. 90, 1927, “Pie Latvju plantatora Indijā” [With a Latvian Plantation Manager in India]

⁹ *Daugavas Vēstnesis*, No. 41, 1940, p. 8

¹⁰ See V. Stephen, “Misonare Anna Irbe – sievietē kura apsteidza savu laiku” [Missionary Anna Irbe – a Woman before Her Time] in *Cēļš*, Nr. 57, 2006, pp. 59-76

¹¹ Jēkabsons, Ē. & Ščrebinskis, V. (eds) (2003), *Latvijas konsulārie pārstāvji ārvalstīs, 1918–1991 in Latvijas ārlietu dienesta darbinieki 1918–1991. Biogrāfiskā vārdnīca*. Rīga: Zinātne, p. 381-382

William Henry Hammond¹². In Madras (Chennai): 1928 III – 1928 XI Jack Harcourt Wilson. Latvia also had honorary consuls in Ceylon (Sri Lanka): 1927 VII – 1931 I Henry Lawson De Mel and 1931 I – 1969 I Richard de Mel. As far as could be ascertained they were little involved in economic relations, although the consuls in Bombay (Mumbai) as the main entry port were probably more involved.

British India during the interwar period also had a number of ICS officers who served as Trade Commissioners for British India working out of the British Consulate in Hamburg, Germany. The Commissioners were responsible for trade with Northern Europe including Latvia. They included Hardit Singh Malik (1933–1934)¹³, Satyendra Nath Gupta (1935–1937 (?)),¹⁴ and Hirubhai Mulljibhai Patel (1937–1939). Of these H. M. Patel was the only one to leave a record of his work in Hamburg. As Trade Commissioner for India he was expected to see that trade relations prospered between India and the countries of Northern Europe including Latvia.¹⁵ He makes the point that the most important trading partner was Germany and “... the Baltic States did not count for much.”¹⁶

Nevertheless, in the interwar period, Latvian and Indian economic relations were mainly confined to foreign trade. It should be noted that the terms British India and India are used as synonyms in this paper.

Latvia's Economic Relations with British India 1924–1939

Although Latvia declared its independence in 1918, trade with British India did not commence until 1924. It ended with the outbreak of WWII in 1939.

Latvia's foreign trade in the 1920s was based in large measure on a system of commercial and trade treaties. By 1929, Latvia had concluded commercial treaties with all important European states, including one of its most important trading partners – Great Britain (22.6.1923). They provided the regulatory framework within which were stated the obligations undertaken by Latvia in its foreign trade relations with its trading partners up to 1931.

¹² For biographical details see http://www.dnw.co.uk/auction-archive/special-collections/lot.php?specialcollection_id=57&specialcollectionpart_id=25&lot_id=68335 (Accessed 01.02.2015)

¹³ <http://www.learnpunjabi.org/eos/HARDIT%20SINGH%20MALIK%20%281894-1985%29.html> (Accessed 01.02.2015)

¹⁴ Supplement to the *London Gazette*, 3 June 1935, p. 3599

¹⁵ Patel, H. M. (2005), *Rites of Passage*. New Delhi: Rupa Publications India Pvt. Ltd., p. 46

¹⁶ *Ibid.* p. 47

Latvia's foreign trade in relation to British India was more or less regulated by Latvia's 1923 treaty with Great Britain. Article 26 of the 1923 Treaty of Commerce and Navigation between Great Britain and Latvia states:

"The stipulations of the present Treaty shall not be applicable to India or to any of His Britannic Majesty's self-governing Dominions, Colonies, Possessions, or Protectorates, unless notice is given by His Britannic Majesty's representative at Rīga of the desire of His Britannic Majesty that the said stipulations shall apply to any such territory.

Nevertheless, goods produced or manufactured in India or in any of His Britannic Majesty's self-governing Dominions, Colonies, Possessions, or Protectorates shall enjoy in Latvia complete and unconditional most-favoured-nation treatment so long as goods produced or manufactured in Latvia are accorded in India or such self-governing Dominions, Colonies, Possessions, or Protectorates treatment as favourable as that accorded to goods produced or manufactured in any other foreign country".

Most Colonies, Possessions and Protectorates had acceded to the Treaty, including the Government of India by the end of 1928.¹⁷

Similarly, Article 1 of the later 1934 Commercial Agreement between the Government of Latvia and His Majesty's Government in the United Kingdom, with Protocol allowed for the continuation of previous arrangements under the previous treaty:

"The articles enumerated in Part II of the First Schedule to this Agreement [...] shall not on importation into Latvia [...] be subjected to duties or charges other or higher than those specified in the Schedule, provided [...] enjoys most-favoured-nation treatment in Latvia in accordance with Article 26 or Article 27 of the Treaty of Commerce and Navigation between Great Britain and Latvia, signed on the 22nd June, 1923."

Because of the most-favoured-nation (MFN) treatment guaranteed under the treaties, tariff changes during the interwar period, especially in the wake of the Great Depression, did not unduly affect trade between Latvia and British India.

¹⁷ LVVA, 295. f., 1. apr., 348. l. – p. 123 and 126

Comparison of Latvia and British India in the Interwar Period

Table 1 Selected economic indicators for Latvia and British India in the interwar Period

	Latvia	British India
Population (millions)	2 (1939)	389 (1941)
Share of urban population (%)	34.6 (1935)	12.8 (1941)
Share of agriculture in the labour force (%)	67.8 (1935)	74.8 (1946)
National Income (millions Ls)	1256 (1938)	52140 (1934)*
National Income per capita (Ls)	628 (1938)	134 (1934)
Share of Agriculture in NI (%)	39.2 (1938)	40 (1946)
Share of Manufacturing in NI (%)	20.5 (1938)	17 (1946)

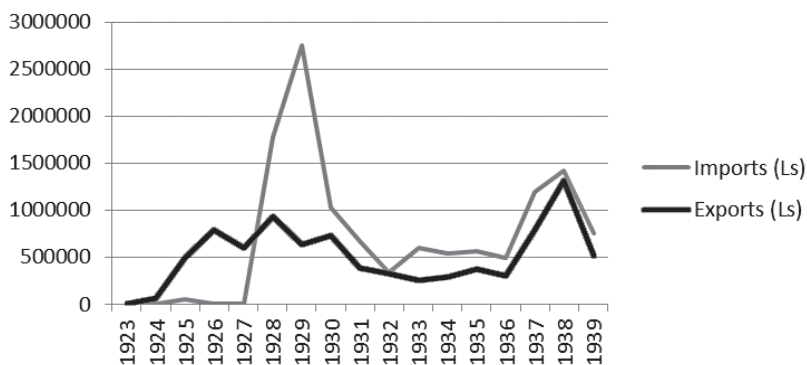
* Conversion of 1934 British pounds sterling to Latvian Lats

Sources: Clarke, C. (1940), *The Conditions of Economic Progress*, pp. 36, 42, 44; Roy, T. (2008), *The Economic History of India 1857–1947 (Second Edition)*, pp. 84-85, 346; Tomlinson, B. R. (2013), *The Economy of Modern India (Second Edition)*, p. 4; Darbiņš, A. & Vītiņš, V. (1947), *Latvija: Statistisks pārskats*, pp. 7, 18, 69; *Ekonomists*, [The Economist], 1934, No. 22, p. 816

As can be seen from Table 1, despite the enormous difference in population Latvia's share of urban population in the interwar period was almost three times that of India; the share of agriculture in the labour force was only slightly less (about 10% less). National Income per capita was nearly six times that of India although the share of agriculture was similar. Latvia's share of manufacturing in NI was also slightly higher.

Latvian-Indian Trade 1924–1939

The value of Latvian imports from and exports to British India can be seen in the Figure 1. Imports were at very low levels up to 1927. From 1928 (after India had acceded to the 1923 treaty) imports increase substantially and in 1929 reached their highest value – nearly three million lats. Exports, on the other hand, were greater than imports only up to 1927 with a peak in 1928. They fell with the Great Depression, but slowly started to rise from 1934 and reached their peak in 1938 with a value of over one million lats. Generally, exports exceeded imports only in the early 1920s; for the rest of the period imports exceeded exports. However, in the 1930s there was a closer balance between imports and exports.



Sources: *Latvijas Statistika. Gada Grāmata 1923* [Latvian Statistical Year Book 1923] Rīga: Valsts Statistiskā Pārvalde; *Latvijas ārējā tirdzniecība un tranzīts – 1924–1939.* [Latvian Foreign Trade and Transit. 1924–1939.] Rīga: Valsts Statistiskā Pārvalde; and *Mēneša Biļetens Nr. 10, oktobris 1939* [Monthly Bulletin, No. 10, October 1939], p. 1057

Figure 1 Latvia-British India Imports and Exports 1923–1939¹⁸

In terms of Latvian trade statistics, it should be noted that there are problems in respect of British India. In some years the statistics include Ceylon (Sri Lanka) and other British colonies East of Suez, and they also include Burma (Myanmar) up to its official separation from British India in 1937. Nevertheless, it is clear that the vast bulk of the data refers to British India as such and thus can be used to reflect trade between Latvia and British India.

Latvian Exports to British India

Latvia's main exports to British India were plywood, timber and timber products, paper and paper products, and lubricating oils. The amounts and value of Latvia's main exports exported to India in the interwar period are shown in Table 2.

¹⁸ Latvia, following the practice of other nations, stopped publishing data regarding foreign trade after the commencement of WWII. See *Ekonomists*, 1940, No. 4, p. 231. The data for 1939 is for eight months only – to 31 August 1939.

Table 2 Main Latvian Exports to British India 1923–1939

Year	Plywood		Timber and timber products		Paper and paper products		Lubricating oils	
	kg	Value (Ls)	kg	Value (Ls)	kg	Value (Ls)	kg	Value (Ls)
1923	0	0	8845	3560	0	0	0	0
1924	10 000	39436	0	0	18990	7355	0	0
1925	561140	222324	0	0	384894	206039	84323	43566
1926	827125	290643	0	0	542799	284419	421097	205101
1927	389268	129760	24778	11835	908012	429523	51780	25259
1928	153790	54884	909951	188272	693742	348524	635770	331931
1929	323914	130212	312852	61196	466731	222660	441519	217722
1930	921081	327727	90000	25701	504938	240224	211190	131371
1931	1025339	298194	108516	20975	68212	30055	67685	32718
1932	1250109	236329	218978	27487	198132	61321	0	0
1933	745105	106913	290532	32632	205707	46426	0	0
1934	1427107	183565	318036	41080	273211	55109	0	0
1935	1362984	185704	652812	47867	573683	157912	0	0
1936	1054676	169669	708912	67076	259607	69468	0	0
1937	1830341	429850	1074324	156227	468432	213347	0	0
1938	3508529	1084829	393412	53658	446432	168265	0	0
1939	1171000	358000	299500	40000	301000	117000	0	0

Sources: *Latvijas Statistika Gada Grāmata 1923* [Latvian Statistical Year Book 1923] Rīga: Valsts Statistiskā Pārvalde; *Latvijas ārējā tirdzniecība un transits – 1924–1939*. [Latvian Foreign Trade and Transit. 1924–1939.] Rīga: Valsts Statistiskā Pārvalde; and *Mēneša Bijetens Nr. 10*, oktobris 1939 [Monthly Bulletin, No. 10, October 1939], p. 1057

Lubricating oils were an important export product in the 1920s,¹⁹ however, exports of lubricating oil ceased in 1931 as a result of the Great Depression. Plywood, on the other hand, was the most important export

¹⁹ For example, exports by the company “A. Oehlrich and Co.” (*Ekonomists*, 1937, No. 6, pp. 211-212)

to British India and continued strongly throughout the interwar period. It reached its peak in 1938 with sales of over one million lats. The amount of Latvian plywood reaching India may have been even larger as some of the plywood exported to Great Britain was re-exported to India.²⁰ The next important export was paper and paper products, which reached their first peak in 1927 both in volume and value, but continued throughout the period reaching a second peak in 1937. Timber and timber product exports (mainly Aspen blocks) really only commenced in 1927 (with trial shipment in 1923) and reached a peak in 1928 and again in 1937.

During the interwar period, Latvia also exported to British India, in small quantities, matches²¹, glazed earthenware, tin tableware, glassware, tinned fish and liquors, as well as chocolates and confectionery (See Figure 2).

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SIBIA
IRAQ

FACTORY: MIERA IELĀ 22-RĪGA — P.O. BOX: 1237 CABLE ADDRESS: LAIMA-RIGA

Figure 2

²⁰ *Ekonomists*, 1929, No. 4, p. 147

²¹ For example, exports by the company "Vulkans" (*Ekonomists*, 1925, No. 18, p. 875)

Latvian Imports from British India 1923–1939

Latvia's main imports from British India were furs, hides and furriery articles; nuts and seeds; rice and rice products; spices and condiments; coffee, tea and cocoa; and jute, cotton, wool and hemp (including jute sacks). The amounts and value of Latvia's main imports imported from India in the interwar period are shown in Table 3.

Table 3 Main Latvian Imports from British India 1923–1939

Year	Furs, hides and furriery articles		Nuts and seeds		Rice and rice products		Spices and condiments		Coffee, Tea and Cocoa		Jute, cotton, wool and hemp (including jute sacks)	
	kg	Value (Ls)	kg	Value (Ls)	kg	Value (Ls)	kg	Value (Ls)	kg	Value (Ls)	kg	Value (Ls)
1923	6500	11640	0	0	4993	1640	0	0	0	0	0	0
1924	104	5692	0	0	7056	2200	0	0	0	0	0	0
1925	23367	56984	0	0	0	0	0	0	0	0	0	0
1926	0	0	0	0	0	0	0	0	0	0	0	0
1927	5	125	0	0	0	0	0	0	0	0	0	0
1928	11831	39642	19785	14160	4299173	1488329	15213	60359	72382	27289	5365	4555
1929	0	0	34870	23190	7368069	2353533	16883	76011	38592	135292	0	0
1930	1	31	57183	36062	2488766	760101	6630	32604	35215	107504	2195	1489
1931	2790	3290	55258	27788	2554259	546612	12177	24759	15623	42217	1730	1107
1932	201	9101	42050	18091	718602	112646	3110	10560	30097	90503	92620	37121
1933	425	17763	25985	10057	1215991	163139	2074	9624	26371	80689	382937	200166
1934	2201	56639	34138	11539	479792	57220	4623	13524	18990	49007	377824	174866
1935	4830	114737	26458	10480	319374	55577	10424	18705	29735	74912	169661	55638
1936	1598	91138	42505	19737	205980	32268	5743	23156	30867	94070	155764	75601
1937	3646	337069	124833	80275	126286	35876	1536	19329	30102	117408	205442	253380
1938	4235	241383	67878	42914	556466	144157	3246	29205	26373	138961	419289	356200
1939	2000	137000	261000	75000	670000	167000	1000	10000	20000	101000	123000	145000

Sources: *Latvijas Statistika Gada Grāmata 1923* [Latvian Statistical Year Book 1923] Rīga: Valsts Statistiskā Pārvalde; *Latvijas ārējā tirdzniecība un transits – 1924–1939*. [Latvian Foreign Trade and Transit. 1924–1939.] Rīga: Valsts Statistiskā Pārvalde; and *Mēneša Biļetens Nr. 10*, oktobris 1939 [Monthly Bulletin, No. 10, October 1939], p. 1057

Most Latvian imports from British India commenced in 1928 after the Government of India had acceded to the 1923 Treaty with Great Britain, although some imports of furs and hides, as well as rice had commenced in 1923.

The main import in terms of volume was rice and rice products, which reached their peak in terms of volume and value in 1929. In this period, most rice in fact came from Burma (Myanmar).²² Imports of furs and hides fluctuated during the period, reaching a peak in terms of volume in 1935 and in terms of value in 1937. Nuts and seeds were important import products and reached their peak in only in the first eight months of 1939. Spices and condiments (mainly peppers) were also important import products. Although they reached their peak in terms of value in 1924, they continued throughout the period. Coffee, tea and cocoa were important import products as well, especially tea. Although their peaks both in terms of volume and value were in the 1920s, with an increase in the late 1930s, they also continued strongly throughout the interwar period.

The textile fibres jute and cotton were of lesser importance in terms of imports from British India. Cotton was imported in smaller quantities than from other sources because the textile manufacturers felt that Indian cotton was not suitable for their textile machines.²³ Jute was the main fibre imported (as well as ready-made jute sacks) with a peak both in terms of volume and value in 1938.

During the interwar period Latvia imported a whole range of Indian goods in small quantities including copra, paraffin, rubber, lead, casein, castor oil, shellac, vaseline, tanning and leatherworking materials, yarn and twine, and fertilisers (phosphorite, potassium, etc.).

Conclusion

In 1929, when Latvian foreign trade reached its pre-Depression peak, Latvian exports to British India made up only 0.2% of total Latvian exports, and Indian imports made up 0.8% of total Latvian imports. Similarly in 1938, when Latvian foreign trade reached its post-Depression peak, exports to British India were 0.6% of total Latvian exports, and imports from India were also 0.6% of total Latvian imports. Thus, there was an increase in exports and a decrease in imports in 1938. One suspects that the figures from the Indian point of view would be similar or even less. In other words, trade and thus economic relations were of marginal significance to both countries in the interwar period.

²² Pelcis, V. (1936), *Britu pasaules impērija* [British World Empire]. Rīga: Valter un Rapa A/S Apgāds, p. 52.

²³ *Ekonomists*, 1938, No. 3, p. 127

It is interesting to note that in 2014 Latvian exports to India totalled 14 926 308 EUR or 0.16% of total Latvian exports (mainly metal products, electrical equipment and timber products) whilst imports from India totalled 30 346 245 EUR or 0.27% of total Latvian imports (mainly rubber products (tires), metals and metal products, pharmaceuticals, and textiles).²⁴

Although there were no registered Latvian companies operating in India (there were also none in the interwar period); in March 2014, some 87 Indian-Latvian joint ventures were registered in the Latvian Enterprise Register with a total investment of 1.89 million EUR.

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²⁴ Data from the Central Statistical Bureau of Latvia

ASPECTS OF SOCIAL CAPITAL IN LOCAL ECONOMIC DEVELOPMENT: EVIDENCE FROM REGIONAL LATVIA

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Abstract

Social capital is a concept that refers to obtaining various resources by means of formal and informal networks, and considers social interactions, which underlie and generate economic development. The authors consider the benefits, risks and socio-economic impact using three commonly accepted dimensions of social capital (Nahapiet & Ghoshal, 1998). There is a literature on peculiarities arising from the historical post-soviet context, which influences public activities and outcomes. The authors find that attitudes prevalent in post-soviet societies associated with structural and relational dimensions contribute to negative outcomes through cognitive dimension and may create risks of “vicious circles”. Using statistical data, recent research and local surveys, the authors examine if regional social capital differs in distinct regional socio-economic situations. This article provides available empirical data on social capital within the socio-economic context and historical background of regional Latvia. The research is important because Latvia as a small and open economy is a subject of external shocks and it is important to understand how social capital affects local economic development.

Key words: Social capital, social capital perspectives, social capital forms, local economic development, the Synergy View, the Third Sector, post-soviet societies

Introduction

Technological development widens possibilities for social interaction and communication, thus adding importance to social capital and manifestations of its various forms. Woolcock suggests “the social dimension” pertains to the wealth and poverty of nations” and argues “getting the social relations right” (Woolcock, 2001) is a crucial component of both means and ends of development. Social capital improves the knowledge of economic phenomena (Ostrom & Ahn, 2003). Notable studies link social capital with collective social outcomes and economic performance. James Coleman, Nan Lin, Robert Putnam, Stephen Knack and

Philip Keefer, Alejandro Portes, Michael Woolcock, Edward Glaeser, are among prominent social capital researchers, whose works' have influenced economic science (Akçomak, 2008).

The OECD (Scrivens & Smith, 2013), World Bank (Woolcock & Narayan, 2000) provides an analysis of earlier approaches to the study of social capital and theoretical frameworks for measuring social capital. OECD has identified around 50 both international and national surveys incorporating questions relevant to social capital. The theoretical literature and empiric research on social capital and economic development leaves no doubt about the importance for further scientific inquiry.

First, the authors choose a definition of social capital for their analysis. Second, the authors outline general theoretical positive and negative outcomes associated with social capital. Then the authors offer a structure of social capital forms and corresponding positive/negative outcomes and socio-economic impact (Figure 1). The authors build this study on three forms of social capital: structural (social relations and networks), relational (elements rooted in relations, trust) and cognitive (shared codes and values) (Nahapiet & Ghoshal, 1998). The authors consider these three forms provide a logic structure of social capital layers for categorising links and the possible impact of social capital on economic development results. The authors use the *synergy view* (Woolcock & Narayan, 2000) in this study, which includes three sectors: private, public and *the third sector* (Jackson, 2010; Moxham, 2014).

Nahapiet and Ghoshal have described the embeddedness of social capital forms, thus this approach also allows the authors to reflect on suggestions of peculiarities of social capital in post-soviet societies. The authors also examine if there is causation between social capital and problematic local economic situations – such as income inequality. The third section provides the available hallmarks of social capital and local (regional) economic development in Latvia.

This article attempts to identify the importance of social capital within economic development processes in regional Latvia. After restoring independence (1991) and acceding to the European Union (2004), the national economy was subject to the global financial crisis, which emphasised the necessity to re-consider earlier economic development processes.

Concept of social capital and the embeddedness of relations

Concept of social capital in science disciplines

Various social science disciplines recognise the concept of social capital – economics, sociology, management/business, political science,

health sciences (public health) and psychology (Akçomak 2008, p. 41). Akçomak (Akçomak 2008) indicates the most influential researchers of social capital in management, sociology and economics and reflects interconnections between disciplines through article citations.

Sociologists have certain prerogatives in the field, i.e. James Coleman is accepted to be the first sociologist who conceptualised social capital, and due to the numerical prevalence of sociologists researching the subject as well (Akçomak 2008). In sociology, the term “social capital” arose in community studies, and it emphasised the importance of networks in providing trust and co-operation in such communities (Jacobs 1965).

Political science emphasises a societal level of analysis and defines social capital as “features of social organization, such as trust, norms and networks that can improve the efficiency of society by facilitating coordinating actions” (Putnam 1993).

Economists recognise that factors of social capital have an influence on economic growth and economic development. Both economic growth and development embrace combinations of different resources, and social capital may enhance the “efficiency of the combination process” (Grootaert 1998). Valuable studies have been conducted about the influence of social capital on the development of human capital (Coleman 1988) and on the economic performance of firms (Tsai and Ghoshal 1998), geographic regions (Putnam 1993), nations and economic well-being (Fukuyama 1995).

Level of analysis

There is still an important debate whether social capital is a micro or macro phenomenon (Woolcock 2001). Bourdieu’s approach to social capital has influenced a range of research at the micro-level (Lin 2001; Burt 2005), Coleman looked at both the micro-level and meso-level, and Putnam focused on social capital as something that operates at the macro and meso-levels of society (Scrivens & Smith 2013). Malecki refers to social capital as a critical, ‘soft’ type of territorial capital in regional development (Malecki 2012).

Paldam suggests social capital is a micro concept, which allows aggregating it on the national (macro) level (Paldam 2000). Given the set of features, which provide a definition of capital, Akçomak studies commonalities and differences between physical, human and social capital (Akçomak 2008). Social capital in the broadest sense refers to the productive value of social connections. Relationships and societal norms are important in the process of shaping individual and aggregate well-being outcomes (Scrivens & Smith 2013). The authors stress that social capital has to be associated with economic well-being and performance and all levels (micro, meso or macro) of individuals, communities, institutions

or nations embed within a specific socio-economic and historic context. The authors further provide some aggregate meso-level data, which gives an insight about the level of social capital and regional differences.

Defining social capital

Although there are great studies across scientific disciplines about diverse aspects and impact of social capital, there is no shared agreement on the common approach or the meaning of this concept. Akçomak recognises “the issues of what social capital is, and what it includes become blurry” due to the distinctive research interest in each discipline and minimal communication between disciplines (Akçomak 2008). However, there is a consensus among the authors that social capital is an ability of persons to gain benefits from specific social structures in which they are involved based on trust, shared norms and values (Portes 1998). Social capital creates in the context of society, and depends on a history, development peculiarities and unique experiences of the members of any particular community (Bourdieu 1990). Thus, social capital is present in every society, where both formal and informal networks exist. Woolcock focuses on the sources of social capital and suggests that “social capital refers to the norms and networks that facilitate collective action” (Woolcock 2001). Ostrom and Ahn define “social capital as an attribute of individuals and of their relationships that enhances their ability to solve collective-action problems” and select three broad forms of social capital: trustworthiness, networks and the formal and informal rules or institutions (Ostrom & Ahn 2003). OECD identifies four principle areas: personal relationships, social network support, civic engagement, trust and co-operative norms (Scrivens & Smith 2013). Woodhouse builds a two-level conceptual framework of social capital: societal structures, and norms of behaviour (Woodhouse 2006). The context of social networks, organisations, and formal and informal institutions have unique historical and political features, and the role and impact of social capital in various societies may differ radically.

The authors use the term “social capital” in an economic sense as an investment in social relationships, based on shared norms and values, and, from which certain returns are expected.

Peculiarities of social capital in post-soviet societies

Regional Latvia is an interesting research case as the history and inheritance from the Soviet occupation may matter. The formation process of social capital has undergone specific conditions due to the Soviet planning heritage and to some extent inherited values and norms, which are not characteristic for western democratic societies. As noted by Hoff and Stiglitz (Hoff & Stiglitz 2002), economists did have the unique opportunity

for understanding the creation of the “rules of the game” (and even try to influence) with the fall of communism in Eastern Europe and the former Soviet Union in the period 1989-91. “There was no theory to explain how this process of institutional evolution [...], would occur” (Hoff & Stiglitz 2002). Two decades have passed since the fall of Soviet Union and formally the “rules of the game”, the formal economic institutions, are established.

Some studies investigate various aspects of social capital in transitional economies. These seek to answer the question: what obstructs the building of trust in formal institutions in these societies? (Rose 1999) However, there is a lack of such studies in Latvia, especially research examining local peculiarities of social capital formation and the interrelation with local economic development. Knack and Keefer (1997) found that trust and civic norms are stronger in nations with higher and equal incomes, with higher education levels, ethnically more homogenous, and with institutions that restrain the predatory actions of chief executives. The outcomes of higher social capital levels are in nations with better economic development results.

The literature contains judgments about social capital in post-soviet societies and Central and Eastern European (CEE) countries. Growiec and Growiec (2010) provide evidence that bridging and bonding social capital, as well as social trust may interdependently affect individuals' earnings and subjective well-being. Based on a cross-sectional World Values Survey 2000, data on individuals from Central and Eastern European countries (CEECs), Growiec proved that majority of citizens of CEECs countries fall in a “low trust trap” where deficits of bridging social capital and trust reinforce each other in lowering individuals' incomes and well-being.

Bauernschuster et al. (2012) provide empirical evidence that socialist experience includes lack of self-reliance in East German population. They assumed that “the experience of more than 40 years of central planning not only heavily affected the economic structures in CEE countries, but also crowded out productive self-reliance and redirected creativity into rent-seeking activities, which eventually led to the system's economic collapse (Baumol 1990; Murphy et al. 1993; Hillman 1994). They suggest that preferences developed over several decades in a centrally-planned economy presumably do not change overnight after the regime's breakdown. Their analysis found that East Germans “express significantly lower self-reliant preferences than their West German counterparts do, and also that these preferences are relevant for voting behaviour and for “economically relevant and costly decisions”. Boenisch and Schneider (2013) explain that “formal social capital was more or less completely destroyed in the communist era and people invested in informal types of social capital” and that “social capital is threatening to repressive

political regimes since any kind of political opposition needs a seed bed of interpersonal trust on which to build. This is why all dictatorships, as well as the former communist regimes of Eastern Europe, aim to control all social relationships that have any possibility at all of being the basis of co-ordinated political action. In the former communist regimes, a dense network of state security surveillance was established and created an atmosphere of anxiety and mistrust”.

Boenisch and Schneider (2013) suggest that “social capital did not disappear [...], but became a unique character or mixture”. To characterise individual attitudes regarding social involvement authors cite Raiser et al. (2001) “participation in public affairs remained forced and ritualistic. People therefore tended to retreat from the public sphere into privacy; into the realm of relatives and immediate friends; or into innocuous groups promoting non-controversial cultural and leisure activities. Public institutions were perceived as ... imposed by a foreign power”.

Gaidytė (2012) conceptualises trust as a sociological category in political science and suggests that “the scope and depth of cultural changes in post-communist societies inevitably embrace all three levels of analysis: the systemic (institutional-structural level), the societal (community-level), and the individual”. She also suggests that post-soviet societies “inherited a very paternalistic view of the state [...]. The communist experience and post-communist traumas naturally placed the state and the people in opposition”.

Woolcock (2001) believes “that the vibrancy or paucity of social capital cannot be understood independently of its broader institutional environment: communities can be highly engaged because they are mistreated or ignored by public institutions [...], or because they enjoy highly complementary relations with the state.”

The above studies and citations definitely indicate that there is a historically and institutionally specific influence on social capital in CEECs countries, especially regarding the outcomes of social capital with major influence on economic performance – “trust” or opposite “mistrust”.

The authors review both positive and negative aspects of social capital reflected in theoretical literature in the next sections.

Theoretical dimensions of social capital: benefits

Nahapiet and Ghoshal (1998) have differentiated three main dimensions of social capital: structural, relational and cognitive, which are interrelated in complex ways. The author’s further empirical insight in the case of regional Latvia indicates possible interrelation between these dimensions.

Structural social capital refers to the pattern of connections between people: the main facets are network ties and configuration (Granovetter, 1982). This dimension is conventionally used to refer to the general model of connections between actors – who is connected to whom and how these connections are achieved (Burt 1992). The most important benefit associated with this dimension is information. There is a broad range of analysis indicating that network ties help their members to acquire information about job opportunities (Burt, 1992) and innovations (Rogers 1995), and also help organisations to obtain new skills and knowledge (Podolny & Baron 1997).

The relational dimension of social capital focuses on interpersonal relations occurring among actors of a certain social group, such as friendship, respect, trust, norms and sanctions, obligations and expectations. People fulfil their social needs through personal relationships, such as sociability, approval and prestige (Nahapiet & Ghoshal 1998). There are several important benefits connected with relational dimension. For example, in Putnam's model of social capital, interpersonal trust (direct involvement in mutual relationships) extends to trust in impersonal institutional arrangements (Putnam 1993). Some important advantages associated with this dimension are influence, control and power. Coleman describes this with a hypothetical example of a Senate Club in which some senators are more influential than others because they are part of a system of relationships to which other colleagues do not have access (Coleman 1988). However, other scholars point out that sometimes there is a trade-off between the benefits of power and the benefits of information (Adler & Kwon 2002). For instance, Ahuja (2002) argues that an actor, who gains information from many contacts who themselves have ties with many other contacts, ultimately has less influence upon these contacts.

The third form of social capital is the cognitive dimension. The cognitive dimension “refers to those resources providing shared representations, interpretations, and systems of meaning among parties (Cicourel 1973)” (Naphiet & Gloschal 1998). The authors consider that the cognitive dimension has significant influence as among others it provides motivation to engage in social interaction (exchange knowledge), e.g. reasons to become involved in the informal economy. The main benefit associated with this dimension is solidarity. A common vision and shared systems of meaning encourage compliance with local rules and customs and reduce the need for formal controls (Adler & Kwon 2002).

At the societal level, solidarity includes civic engagement (Putnam 1993), and at the organisational level – corporate civic behaviour (Adler & Kwon 2002). Woolcock (2001) refers to earlier research indicating that

“weak, hostile or indifferent governments have a profoundly different effect on community life [...], than governments that respect civil liberties, uphold the rule of law, and resist corruption (Kaufmann et al. 1999a and 1999b)”.

Theoretical dimensions of social capital: negative aspects

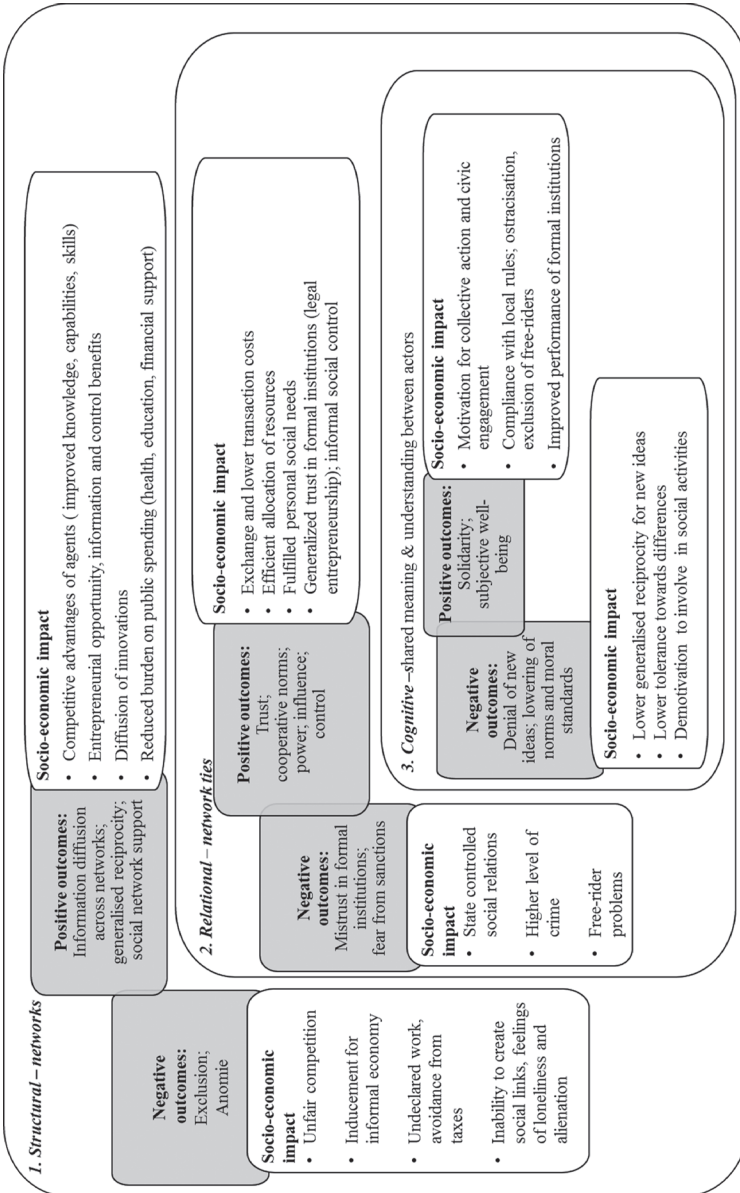
Akçomak (Akçomak 2008, p. 16) indicates scholars, who refer to adverse effects of social capital (e.g., Fukuyama 1995; Gambetta 1996; Portes 1998). People use social structures in ways that are destructive for the society as a whole. The literature indicating negative aspects of social capital calls these as risks (Adler and Kwon 2002), the dark side (Field 2003) or negative social capital (Portes 1998). The main negative illustrations are Ku-Klux-Klan, Italian Mafia, and the Nomenklatura.

For the sake of clarity and consistency, the authors will study the negative aspects of social capital according to the same theoretical three-dimensional framework. Although all three dimensions of social capital are complementary and inseparable, the authors review them separately in terms of the positive and negative aspects of each form, with the proviso that all consequences described pertain to the whole concept of social capital.

The main negative feature of the structural dimension of social capital is that it bars others from access (Portes 1998). Waldinger (1995) points out that “the same social relations that enhance the ease and efficiency of economic exchanges among community members implicitly restrict outsiders”. In other words, network ties are exclusionary – those who are outside this web of connections are at a disadvantage. According to several scholars who have researched peculiarities of social capital in post-soviet countries, the historical influence from the former period of *blat* and *nomenklatura* created even stronger networks of interpersonal relationships based on family ties, and close friendships (Aberg 2002).

Considering this feature in context of business networks that engage in unofficial activities, those who are outside from the exact network (i.e., honest enterprises that pay all taxes and social contributions for their employees) have a disadvantageous position in the market. In this case, a negative effect of structural social capital is unfair competition.

The relational dimension of social capital, as stated above, is usually associated with interpersonal trust and, according to Putnam, expanded into accumulated trust in impersonal institutional arrangements (Putnam 1993). However, in transition economies the confidence in state-governed institutions is very low and interpersonal trust do not expand into a generalised trust. Moreover, interpersonal friendship, respect and trust



Source: developed by the authors; based on the theoretical dimensions of social capital (Nahapiet and Ghoshal, 1998) and theoretical literature sources reviewed in this paper.

Figure 1 Positive and negative outcomes of structural, relational and cognitive forms of social capital and socio-economic impact.

may even increase mistrust in governmental institutions (Aberg 2002). According to Woolcock (2001) “trust” is not a social capital per se, but an outcome or indicator of social capital. If the positive outcome or indicator is “trust” then the opposite would be “mistrust”.

The cognitive dimension also has its dark side. Solidarity among the group or society members may result in lowering societal norms and moral standards (Portes 1998). The reduction of commonly accepted norms of just society destroys trust in formal institutions and creates a “vicious circle” described by Putnam (1993) – situations, in which low levels of social capital and trust reinforce each other. In other words, a low level of social capital and no trust in governmental institutions lead to social and economic problems (slow economic development or stagnation), which in turn leads to lowering of social capital and trust in state-governed institutions, and hinders confidence in democratic authorities (Putnam 1993). Figure 1 shows a summarised concept of three forms of social capital, the main positive, negative outcomes and socio-economic impact.

Social capital and economic development, measurement

Interaction of social capital and regional economic development

Does social capital differ on regional level and does it matter for regional economic development (initially – economic growth) and vice versa, – is there a linkage between the level of regional economic development and formation of social capital?

Woolcock provides a short review on the inconsistent role of social capital in *earlier models of economic growth*: modernisation theory regarded social relations as an impediment, neo-classical and public choice theories did not separate distinctive properties to social relations per se, but development theories construe social relations in various scales – from burdensome, liberating or irrelevant (Woolcock 2001, p. 18-19). Hoff and Stiglitz suggested that development is no longer seen primarily as a process of capital accumulation, but rather as process of organisational change. There are three research programmes based on the assumptions of neoclassical theory according to Hoff and Stiglitz – the economics of information, the theory of co-ordination problems, and institutional economics. They also argue that neoclassical economics leaves out the heart of development economics by leaving out institutions, history, and distributional considerations (Hoff and Stiglitz 2002). Woolcock also emphasises that notwithstanding a narrow sociological definition of social capital, networks are embedded within an institutional context (Woolcock 2001, p. 11). This line of reasoning stems also from the seminal work by North (North 1981), who argues that economic outcomes rely

on institutions and history. Akçomak in his study indicated that the main benefits reflected in research related to social capital – higher economic growth, higher education, higher financial development, better innovative outcomes, lower homicide rates, lower suicide rates, better public health, and higher value creation by firms (Akçomak 2008, p. 16).

Woolcock and Narayan (Woolcock and Narayan 2000) points out that the “literature on social capital and economic development is expanding rapidly” and provide updates and extend main general perspectives on social capital and development (Table 1).

Table 1 Four Views of Social Capital: Key Actors and Policy Prescriptions
(Woolcock and Narayan 2000)

Perspective	Key actors	Policy Prescriptions
<i>Communitarian View</i> (Local associations)	Community groups; voluntary sectors	“Small is beautiful”, Recognize social assets of the poor
<i>Networks View</i> (Intra (“bonding” and inter “bridging” community ties)	Entrepreneurs; Business groups; “information brokers”	Decentralization; Creation of enterprises zones; “bridging” social divides
<i>Institutional View</i> (political and legal institutions)	Private and public sector	Grant civil and political liberties; transparency, accountability
<i>Synergy View</i> (Community networks and state-society relations)	Community groups, civil society, firms and states	Co-production, complementarity; participation, linkages, “scaling up” local organizations

Source: Woolcock, Narayan, 2000, Social capital: Implications for development theory, research, and policy, World Bank Research Observer, Vol. 15, Issue 2, p. 239.

The Synergy View captures the complementarity of actor relations, and stresses inclusive development to “identify and pursue common goals”, and besides private and public sectors, includes state – society relations as a realm of the Third sector. The authors include the understanding regarding key actors indicated within the Synergy View as important constituents beside private and public sectors to provide an insight of social capital and local economic development in Latvia.

Measurement of economic development and social capital on meso-level

The term “economic development” has wider meaning than “economic growth” because it includes not just quantitative changes in

economic growth, but also qualitative improvements in well-being. Rowe explains economic development as a complex process that is created from a successful fusion of entrepreneurship, education and skills of the community, driven largely by market forces with favourable business environment and supportive regulatory framework as important conditions (Rowe 2010). In the field of development studies, civic engagement has been regarded as playing a key role in enabling government provision of public goods (e.g. public health and universal education) and the rule of law (e.g. property rights and freedom of speech). Relationships and societal norms are important in the process of shaping individual and aggregate well-being outcomes (Scrivens and Smith 2013).

As reflected previously social capital is multi-dimensional and existing researches vary in terms of research questions and levels. Scholars recognise that “obtaining a single “true” measure of social capital is probably not possible” (Woolcock & Narayan 2000). There are arguments against measuring social capital on larger social aggregates (Portes 1988; Woolcock & Narayan 2000) as the impact of social groups in terms of the public good effect diminishes on macro scale. There are arguments that the vitality of community networks and civil society is largely the product of the political, legal, and institutional environment. One commonly used measure of social capital is membership in informal and formal associations and networks, the other aspect is trust (Woolcock and Narayan 2000). Woodhouse (2006) groups all social capital factors within a two level framework for measurement – societal structure and norms of behaviour, or a mixture of both. The World Bank’s Social Capital Assessment Tool includes five dimensions and focuses on the household, community and organisational levels. The Canadian experience (Bryant and Norris 2002) is based on five themes: Social Participation, Social Engagement, and Commitment; Level of Empowerment (known as control, self-efficacy in the U.K. version); Perception of Community; Social Networks, Social Support, and Social Interaction; Trust, Reciprocity, and Social Cohesion. Recent OECD Statistics Working Papers (Scrivens & Smith 2013) present classification of social capital into four categories: personal relationships; social network support; civic engagement; trust and co-operative norms.

According to literature, the authors have identified indicators and available variables, which could provide an insight on economic development level and social capital in regional Latvia (see Table 2).

Table 2 Data availability on economic development and on social capital on meso-level

Indicators of economic development and social capital	Variables	Data on meso-level
Income and wealth	Household income	Available
Economic activity	Number and size of firm	Available
	Manufacturing, added value	Not available
Innovation outcomes	Patent data	Not available
Jobs and earning	Unemployment rate	Available
Demography (economic situation)	Proportion of economically active population; and older	Available
Demography (the absence of social capital)	Population heterogeneity and family structure (single-parent households)	Available
Education	Proportion of population with higher education	Available
Health status	Government expenditure on health	Not available
Quality of governance	The Worldwide governance indicator	Not available
Structural social capital (associational life, civic engagement)	Number of NGO's	Available
	Membership to voluntary associations	Not available
	Propensity to vote; voter turnout	Available
Relational Social capital (thick and thin trust, trustworthiness)	World Value Survey; European Values Survey; European Social Survey	Not available
Cognitive Social capital (shared representations, systems of meanings, anticipation of value)	Questionnaires including evaluation of subjective well-being; blood donation; voluntary contributions to charity	Not available

Source: developed by the authors; based on the theoretical literature, research and review of data available at Central Statistical Bureau of Latvia or other data sources.

Evidence from local and regional Latvia

The state – society relations in Regional Latvia

The Synergy View allows characterising regional Latvia, to indicate actors involved within policy solutions (co-production, complementarity, participation, linkages). The authors depict structures involved in local

state-society relations, institutional actors and policies with a major impact on local economic development outcomes on macro and meso levels (see Table 3).

Table 3 Institutional framework and policies with major impact on economic development outcomes and on social capital in Latvia

Level	Institutional actors	Policies identified
Macro	Institutions of European Union	Policies in various areas, from agriculture to transport (source: European Commission http://ec.europa.eu/policies/index_en.htm)
	Governmental institutions of the Republic of Latvia	Sustainable Development Strategy of Latvia until 2030; National Development Plan of Latvia for 2014–2020; development policies (from Regional Development to health care).
Meso	Planning Regions	Development programmes and spatial plans of planning regions.
	Local governments, municipalities	Development programmes and spatial plans of local governments.

Source: table compiled by the authors.

Latvia as a Member State of the European Union is engaged in implementing EU strategic goals and policies. The policies of the European Union are very important for Latvia as EU Funds are one of the sources for fostering development goals set by Latvian public governance institutions. The governmental institutions of the Republic of Latvia, planning regions and local governments or municipalities hold responsibilities for the local development processes, elaborate planning documents, and monitoring policy implementation.

Individuals, households, local institutions (i.e. schools), most firms and NGO's and social groups operate on micro level. However, there are also private, public and social legal entities (i.e. firms and NGO's) operating on meso or macro levels. Statistical data on economic development is available mostly on macro-level.

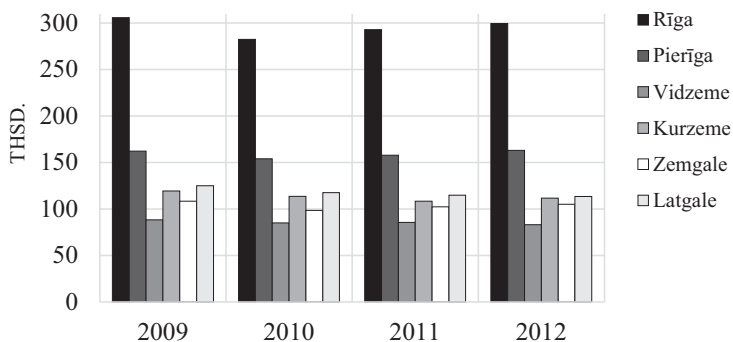
Contextual socio-economic situation in Latvia

There are 5 planning regions (initiated from central government bodies as separate agencies, which correspond to statistical EU division of NUTS 3 level) and 119 local governments or municipalities' altogether.

The total territory of nine Republic cities constitutes 1% of the whole territory of the Republic of Latvia, but in terms of inhabitants – 51% of all population lives in capital Riga and surrounding Pierīga region (based on data by Central Statistical Bureau of Latvia). There exists a polarisation

of economic activities in regional Latvia (Figures 2 and 3). 40% of all entrepreneurial activities and 53% of employed inhabitants concentrate in the capital Riga and the surrounding Pierīga region.

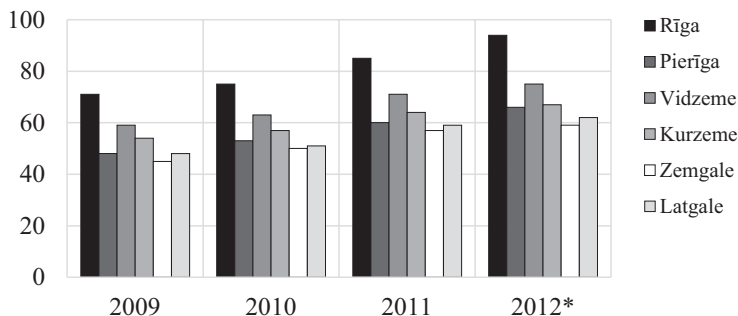
**Number of employed persons regionally,
Latvia, 2009–2012**



Source: Central Statistical Bureau of Latvia.

Figure 2 Number of economically active market sector units regionally

**Number of economically active market sector
statistical units per 1000 inhabitants regionally, Latvia,
2009–2012***



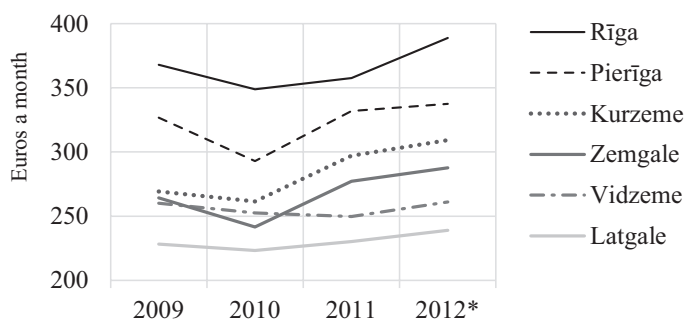
Source: Central Statistical Bureau of Latvia.

Figure 3 Employment in regional Latvia

One of the benefits associated with social capital is job opportunities and security provided by the family ties during economic downturn. The years after the economic crises showed regional differences in

unemployment data. The economic activity in Latvia concentrates mainly around capital and the situation in terms of employment was worse in remote areas. According to the data provided by State Regional Development Agency in its yearly booklet, the average unemployment in Latvia was 11.0% in 2011. Unemployment in Pierīga region was 8.7%. Average unemployment in other planning regions was slightly higher than average in Latvia: Kurzeme – 11.7%, Vidzeme – 11.6%, Zemgale – 11.9%. Unemployment within these regions differs though not so drastically as in Latgale. In the Latgale region unemployment constituted 16.9%. The unemployment in the region's municipalities constitutes somewhat between 17–21%, but in several was even higher, i.e. in Zilupe and Viļāni – 28.1%, Baltinava and Kārsava 25.4%.

Average income per one household member regionally, Latvia, 2009–2012 (euros a month)



Source: Central Statistical Bureau of Latvia.

Figure 4 Difference in average income per one household member regionally, Latvia, 2009–2012* (euros a month)

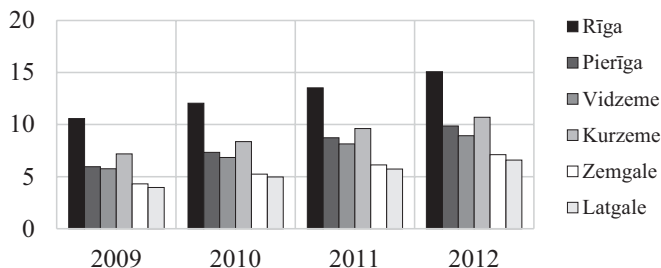
The economic polarisation around the capital city may also be characterised in terms of the inhabitants' economic well-being or monthly average income per household member. As depicted in Figure 4, the highest average income is in the capital Riga and the surrounding Pierīga region. The income level in the rest of the regions (Kurzeme, Zemgale and Vidzeme) is lower, but the lowest average income is again in the Latgale region. Inhabitants of the Latgale region live very close to the at-risk-of-poverty threshold (233 euros a month according to Central Statistical Bureau of Latvia). The income inequality could have a negative impact on the formation process of social capital in regional Latvia. Thus the question is whether well-being on a micro level has an influence on social capital formation and vice versa.

Local Social Capital; some negative outcomes of trust and cooperative norms

As previously identified, the remote regions have lower economic activity, lower income and higher unemployment. Thus, according to previous theoretical suggestions, the role of social capital is relevant to well-being.

Non-governmental organisations may partially characterise civic engagement and density of social networks. The authors further provide data on structural social capital available from local researches and surveys. The data on Latvian NGOs shows a positive correlation of structural social capital and well-being. The economic agglomeration around the capital corresponds with the higher density of NGOs. 61% of all NGOs are in the capital Rīga and surrounding Pierīga region (see Figure 5).

Number of NGOs per 1000 inhabitants regionally, Latvia, 2009–2012



Source: Register of Enterprises of the Republic of Latvia.

Figure 5 Number of NGOs regionally, Latvia, 2009–2012

The Kurzeme region has the highest level (13%) of NGOs compared to the rest of the regions (8%–9%). As earlier identified, the Kurzeme region showed higher average disposable income levels and higher employment levels compared to the Vidzeme, Zemgale and Latgale regions. The authors suggest that there is a positive correlation between civic engagement and socio-economic context

The *relational* dimension of social capital is associated with interpersonal trust and, according to Putnam (1993), expanded into accumulated trust in impersonal institutional arrangements. Seimuškāne and Vor斯拉va (2013) indicate that a level of citizens' trust in both national and local governments has decreased. Aberg (2002) claimed that experiences of distrust and suspicion in state socialist institutions make social capital “incompatible with trust in formal institutions”. Thus there is a need for further study if interpersonal friendship, respect and accelerated mistrust (Aberg 2002; Rose 1999) into governmental institutions in Latvia.

The results of recent inquiries indicate the dual nature of relational and cognitive dimensions in local social capital. There is a certain gap between what people value as being a good citizen and their actual activities. The inquiry “Inequality, integration and sustainable territorial development 2013”, which was conducted within frameworks of national research programme “National Identity” showed that 76.7% of respondents have indicated that good citizens should participate in elections (58,8% – “very important”; 17,9% – “important”). Voter turnout during the last parliamentary elections (2011) was 59.4%, even lower during local elections (2013) – 46.0% (Seimuškāne & Vorslava 2013). The contradiction between the higher meaning of civic involvement and actual low involvement may find the reasoning in theoretical domains of cognitive and relational dimensions. If people think that being a good citizen includes participation in election and do not participate, their common anticipation of value may explain demotivation to act (Nahapiet & Ghoshal 1998).

As measured by the DnB NORD Latvian barometer (2014), only 20% of respondents consider themselves rather satisfied with the performance of government. About 70% of respondents were very critical about government performance (20% – completely dissatisfied; 50% rather dissatisfied).

Unpublished survey data conducted by the research centre SKDS also indicates peoples’ trust in formal institutions. The majority of respondents – 72.6%, do not agree with a statement: “The present Latvian tax system is fair regarding me and my family” (completely disagree – 38.2%; do not agree 38.4%). Only 15.4% agree with the statement. Similarly, 77% of respondents do not agree with a statement “In general, collected taxes are correctly allocated” (37% – completely disagree; 40% – rather disagree).

The previous questions reflect the attitudes and evaluations of formal institutions, which may intensify by the feeling of inability to influence formal institutions. The inhabitants’ perceptions of their own ability to influence events reflect in other survey data conducted by research centre SKDS. 87.7% of respondents feel little personal ability to influence municipal policies and decisions (29.6% – rather little; 58.1% – very little).

The above-indicated contradictions between the value of being a good citizen, actual participation and prevalent beliefs shared in local society reflect so called “vicious” circles described by Putnam (1993), when low levels of social capital and trust reintegrate itself impeding confidence in democratic authorities. Such situations lead to social and economic problems (slow economic development or stagnation), which, in turn, leads to lowering of social capital and trust in state-governed institutions, and further hinders confidence in the democratic authorities (Putnam 1993).

The authors further provide some available data on regional social capital in Table 4.

Table 4 Civic participation and evaluation of local and central government in regional Latvia

Territory	Voters turnout in local government elections ^a	Citizens' trust in local governments ^b	Citizens' trust in national government ^b
Rīga	56%	44%	20%
Vidzeme region	45%	56%	24%
Latgale region	42%	41%	17%
Kurzeme region	41%	57%	25%
Zemgale region	39%	51%	25%

^a Source: The Central Election Commission of Latvia, 2013.

^b Calculations on survey conducted by Seimuškāne & Vorslava, SKDS, 2012.

The Kurzeme region showed relatively high levels of voter turnout during last local government elections. Citizens are satisfied with local governments and the region shows highest trust levels in central government. There is a certain positive relationship between indicators of relational, structural dimensions (growing number of NGOs, Figure 5) of social capital (higher voter turnout in local elections and higher overall satisfaction level with government performance) and economic well-being in the Kurzeme region (higher average income per household, Figure 4).

The lowest trust (*relational dimension*) in local governments and central government appears to be in the Latgale region and number of NGOs (*structural dimension*) coincides with the worst socio-economic situation regionally (Figures 2, 3, 4). The situation in the Latgale region (lowest income, highest unemployment, lowest overall satisfaction level with governments' performance) also indicate peculiarities in attitudes prevalent in post-soviet societies or "paternalistic view of the state" (Gaidytė 2012).

The negative outcome of the *structural* social capital is that it bars others from access (Portes 1998). If the network ties are exclusionary – those who are outside the exact web are at a disadvantage. The undeclared work problems and low propensity to pay taxes illustrate negative socio-economic outcomes. Such insight is possible only on a macro level as data on the informal economy in Latvia regionally is not available. Studies done in the field so far (Putniņš & Sauka 2013) indicate that altogether the informal economy in Latvia is 21.1% of GDP, whilst in other Baltic states – Lithuania 18.2% of GDP, but in Estonia 19.2% of GDP. The partly informal sector, or the situation when employees are working legally and have a labour contract, but a part of their salary is not specified in the contract, and the employer pays it in cash in order to avoid taxes is considered a chronic

condition (Zepa et al. 2006). According to the research "Evaluation of Unregistered Employment", experts estimate that up to 70–75% of all enterprises in the private sector are engaged in this practice (University of Latvia, 2007). In a situation, when a majority of entities in a business network engage in unofficial activities, those who are outside this network (i.e., honest enterprises that pay all taxes and social contributions for their employees) are in a disadvantageous market position. In such cases, a negative outcome of structural social capital is an unfair competition. SKDS survey data reveal peoples' attitudes on tax avoidance, which reflect a cognitive dimension of social capital. Approximately half of respondents responded positively to the statement that "partial avoidance from tax payments is justifiable in the present situation"– 51.3% (2011); 48.2% (2012); 46.9% (2013). The attitudes accepting avoidance from taxes as justifiable decreased in recent years, which characterises enforcing positive circles between economic growth and social capital.

Conclusions and further discussion

The data on social capital attributes and the socio-economic situation in regional Latvia indicates interaction between structural, relational and cognitive dimensions of social capital. The authors suggest that some indicators associated with structural, relational and cognitive social capital contribute both positive and negative outcomes and socio-economic impact.

There are indications that the residents in Latvia have low confidence in formal institutions, and shared vision prevalent in society diminishes the seriousness of negative socio-economic outcomes or by-products of social capital, e.g. tax avoidance as accepted informal norm in case of Latvia.

The authors also found, that there is possible interaction between the social capital and socio-economic context regionally. There is certain positive relationship between social capital and socio-economic context in the Kurzeme region, and the relationship with adverse effect in the Latgale region. The situation in the Latgale region draws attention to the risks associated with cognitive, relational and structural social capital. Anticipation of values and low personal empowerment lead to demotivation and lower capabilities. "Vicious circle" reinforces – low level of social capital leading to low trust in governmental institutions, which result in negative socio-economic impact, which, in turn, leads to lowering of social capital and trust in governmental institutions. The authors suggest that the risks diminish through implementation of adequate policies (i.e. complementarity, participation, linkages) as suggested in perspective of The Synergy View (Woolcock, Narayan 2000).

There is a need for additional in-depth studies of local social capital to indicate specific social capital features of inherited post-soviet societies, as well to provide a more accurate understanding of how social capital interacts with socio-economic conditions. The authors consider the best choice for further research in order to capture the effect of community networks is a local government or meso level.

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PRECONDITIONS FOR THE INTERNATIONALISATION OF KNOWLEDGE-INTENSIVE ENTREPRENEURSHIP

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Abstract

The article studies characteristics of knowledge in business and analyses tendencies in the formation of knowledge-intensive entrepreneurship (business) in the European Union. The authors substantiate the assumption that the expansion prospects of knowledge-intensive production and sales of products and services of small and medium-sized enterprises are associated with the internationalisation of business. In the article the authors propose an entrepreneur decision-making matrix that accommodates the dependence on the completeness and quality of market information.

Key words: knowledge-intensive entrepreneurship, expectations of entrepreneurs, internationalisation, small and medium-sized enterprises

Introduction

World experience shows that sustained economic growth is typical for those countries whose economies are focused on intensive creation and use of knowledge. Entrepreneurs expect to receive income from investments in knowledge in the process of their productive use. Investments in knowledge contribute to the strengthening of the company market position, thus increasing the likelihood of successful sales of products and services. From the standpoint of the most common representations about the content, structure and mechanism of functioning of market relations it can be argued that market participants need knowledge for the following main reasons:

- knowledge provides potential buyers of goods and services with the ability to decide on the deal from the position of maximum satisfaction of needs;
- knowledge provides entrepreneurs with the level of competitiveness that corresponds to the implemented business strategy;

- market infrastructure specialists are able to carry out professional activities only if they have knowledge in the particular field of activity (information services, banking services, foreign exchange dealing and the like).

For today's entrepreneurs the traditional factors set by Adam Smith still retain their significance. However, entrepreneurs increasingly link the maintaining of a sustainable competitive position and, more importantly, business development, with knowledge in the form of intellectual capital. The intellectual capital of an enterprise can be defined as the knowledge of the entrepreneurs and the workers employed by them for business purposes. Intellectual capital is largely a derivative from the cost a businessman has at the purchase of a classical production factor – labour. The entrepreneur does not hire abstract labour, but rather specific competent workers, i.e., people who have adapted to the needs of the business, education and qualifications, skills and abilities. In addition, the impersonal intellectual capital remaining outside the field of view of the researcher or the knowledge that the entrepreneur buys in the form of a software product, licenses, patents, etc. can be interpreted as the derivative of another form of the classical factors of production – money capital.

The derivative nature of the formation of intellectual capital complicates the analysis of the processes of accumulation and use of knowledge in the field of entrepreneurship. The human ability to generate new knowledge updates the entrepreneur's task to hire creatively-minded employees. This means that in the production process of the new value of labour, as a factor in business activity, should always be "saturated" with new knowledge. With the expansion of the scale of the knowledge-based economy the entrepreneur will have to place increasingly bigger emphasis on using the intellectual capital in the business activities. Moreover, the crucial role in ensuring the company's successful market operation tends to increasingly belong not to the fact that the owners have exclusive knowledge, but rather to the professional management of the knowledge.

Features of the operation of knowledge-based entrepreneurship

The implementation of large-scale investments in the accumulation of knowledge is in the powers of large corporations, which predetermines, ultimately, their market dominance. In a large company, according to experts in management, a competitive advantage from knowledge is gained through the productive internal exchange of insights that help employees think differently as they make decisions and take actions.

Just like people, companies in today's economy find that their primary source of competitive advantage increasingly lies in the unique proprietary knowledge they possess. [3; 104]

The ability of corporation managers to effectively manage the processes of knowledge acquisition and transfer in general, and, especially, their unique component – this is the evidence of the high professionalism of corporate management. However, skills and abilities of the knowledge management are becoming much more important for owners and managers of SMEs. In this regard, the authors would like to point out the opinion of the experts of the European Union (EU) who have developed guidelines for the management of knowledge. Based on the fact that knowledge management is management of activities and processes for leveraging knowledge to enhance competitiveness through better use and creation of individual and collective knowledge resources, European specialists suggest the following reasons for its relevance to SMEs:

- Knowledge in SMEs tends to be tacit/informal/not recorded
- Know-how in SMEs may not be valued as highly as it might be
- Lack of know-how may be hard to talk about in SMEs
- Short-term approaches to knowledge gaps may work sufficiently to make change appear unnecessary.

Know-how in an SME may easily be lost or fragmented when the owner sells the business or retires. [7; 4-6]

The expansion of knowledge in the middle and, in particular, small business environment has contributed to the establishment of specific areas of enterprise – knowledge-intensive business. Science has not yet developed a sufficiently rigorous definition of this phenomenon. Therefore, for the purposes of the research, the authors have used the conclusions drawn on the basis of summarising the results of an extensive study by the Swedish scientist Mats Alvesson. He believes that knowledge intensive firms can be loosely and preliminary defined as organisations that offer to the market the use of fairly sophisticated knowledge or knowledge-based products. [1; 17]

If one accepts this definition as a working definition, it can be argued that knowledge-intensive business is focused on the selling in the market: firstly, products with a high proportion of intellectual capital in their production costs; and secondly, the services provided by highly qualified professionals in the particular field of knowledge.

Producers of modern knowledge-intensive products are no longer able to build their business on the principle of "sell and forget". This is due to the fact that the area of distribution of entrepreneurs, independently producing and selling knowledge-intensive goods and services, is no longer limited to local markets. Internationalisation of market relations

has changed the situation fundamentally. Today, the potential buyers of products with a high proportion of intellectual capital in the costs of production have more confidence in market intermediaries and rely on the high quality after-sales service.

Nevertheless, the evolved-over-the-centuries knowledge-intensive business has maintained its position. The inertia inherent in this type of enterprise has ensured the survival of business traditions. The high market “survival” level of the knowledge-intensive business in general and small business, in particular, is insured largely by revolutionary technological changes.

In principle, whenever a radical change of technology takes place, a lot of small businesses enter the market. As the reasons for this phenomenon specialists see that first, since a new technology creates new markets by definition; it destroys incumbent market positions and the entry barriers typical for the older technology and its market. Hence, entry is made easy. Secondly, in the early stages of new markets price elasticity is low because of the novelty of the product. The small firm of the typical entrant has no disadvantage because there is no competitive pressure to fight the battle of scale economies. The specific nature of information and communication technology (ICT) driven regime switch leads to two more reasons why the competitive advantages of large firms decreases. First, ICT tools and the practically free access to the Internet have created a worldwide platform for relations between firms irrespective of their size. Small firms in particular need these relationships to compensate for their narrow set of competencies. The second has to do with the scale effects in transaction costs when firms engage in deals, try to do so or want to monitor them. Transaction costs are higher for small firms when compared to large firms. This has to do with the fixed costs involved with setting up information systems for search, evaluation, control and enforcement. These fixed costs consist of necessary hardware, software and mastering their use. The arrival of the ICT tools which are generally cheap, small and easy to use together with the practically free access to the Internet has almost eliminated the fixed cost part in the transaction costs of any deal. [2; 31-32]

The authors will try to provide statistical arguments which can confirm the optimistic conclusions by researchers about the sustainability of SMEs in a competitive market environment. For this the authors will use the information describing the structure of the non-financial sector of the EU economy – see Table 1.

First of all, one should pay attention to the fact that the dominance of enterprises employing up to 49 people is evident not only in the prevalence (98.7% in 2008), but also in terms of employment – 49.5% of all employees during this period in the non-financial sector of the EU economy. It is

Table 1 Structure of the non-financial sector of the EU economy in 2008 (percentage) [10; 34]

	Total	Including the number of employees (persons)			
		Less than 10	10–49	50–249	250 or more
Enterprises of the non-financial sector					
By number of enterprises	100.0	92.0	6.7	1.1	0.2
By number of employees	100.0	29.0	20.5	17.2	33.3
Apparent labour productivity (1000 €/pers.)		34.3	41.2	47.9	56.6
Manufacturing enterprises					
By number of enterprises	100.0	80.2	15.3	3.7	0.8
Apparent labour productivity (1000 €/pers.)		28.3	38.6	45.9	67.1

important to note that the productivity of employees of micro- and small-business in the non-financial sector of the EU economy is comparable to the performance of employees in enterprises with 250 employees or more. But in the EU manufacturing industry enterprises the gap of the productivity level between the workers in enterprises employing up to 49 people and employed in large enterprises is quite substantial. Thus, an employee of an industrial enterprise, which employs 250 people or more, manufactured products for the total amount of 67.1 thousand euros per year, while an employee of the micro-enterprise – only 28.3 thousand euros. But in 2008 10.1% of the total number of enterprises and 24.2% of all employment in the non-financial sector of the EU economy functioned in the manufacturing industry.

In recent years, EU Member States have been striving to implement a competitive industrial policy. There is a trend of liberalisation of industrial, financial and infrastructure (energy, transport, telecommunications) markets. The modern supranational EU industrial policy is formed primarily under the influence of the principles of government influence on the development of the industry in the countries-“locomotives”: Germany, France, Italy, and Sweden. But politicians of the countries-EU newcomers have a lot of work to lobby the interests of national business, including the interests of entrepreneurs-industrialists.

Saturation of the EU manufacturing industry with micro- and small enterprises – 95.5% of the total number of enterprises, which operated in 2008 – mainly contributes to the solution of employment problems, especially in countries with old market traditions. Currently, however, when traditional mechanical production is replaced by computerised industrial

technologies, the dominance of the companies with low level of labour productivity in the EU manufacturing industry may indicate an insufficient spreading rate of modern technical and technological achievements. The validity of this thesis is confirmed by information on the structure of EU companies in 2010, which are grouped according to the level of technological production – see Table 2.

Table 2 Structure of EU enterprises by level of technological production in 2010 [4]

Manufacturing	Sectors of manufacturing	Share
High technology	air spacecraft; computers, electronic and optical products; pharmaceuticals	2.3
Medium high-technology	chemicals; weapons and ammunition; electrical equipment; machinery; motor vehicles; transport equipment; medical and dental instruments	10.0
Low-technology	food; beverages; tobacco; textiles; clothing; leather, wood and paper products; printing; furniture	52.8
Medium low-technology	reproduction recorded media; petroleum products; rubber and plastic products; other non-metallic mineral products; basic and fabricated metal products; ships and boats; repair and installation machinery	34.9
Total		100.0

The EU entered the second decade of the XXI century with a fairly significant number of low-tech manufacturing enterprises: in 2010, experts attributed more than a half (52.8%) of the total amount of enterprises operating in the EU Member States, to low-tech companies. The structure of low-tech enterprises included traditional machine manufacturing industries – food; beverages; tobacco; textiles; clothing; leather, wood and paper products; printing; and furniture. In contrast, the number of high-tech enterprises – air spacecraft; computers, electronic and optical products; and pharmaceuticals – in the EU is small and accounts only for 2.3% of the total number of enterprises classified by the criterion of their technological level.

High technology manufacturing represented only 6.9% of total employment in the manufacturing sector of the EU in 2011, compared to 28.6% for medium-high, 27.9% for medium-low and 36.6% for low knowledge-intensive jobs. Meanwhile the employment share for knowledge-intensive service sectors accounted for 56% of employment in the service sector as a whole. [6; 69]

In the EU economy a clear trend of the quantitative prevalence of knowledge-intensive business services (KIBS) over high-tech manufacturing business is observed. In general terms, KIBS are mainly concerned with providing knowledge-intensive inputs to the business processes of other organisations, including private and public sector clients. Miles et al. identified three principal characteristics of KIBS:

1. They rely heavily upon professional knowledge;
2. They *either* themselves are primary sources of information and knowledge *or* they use knowledge to produce intermediate services for their clients' production processes; and
3. They are of competitive importance and supplied primarily to business. [11]

KIBS enterprises work in different sectors such as business and management consulting, marketing and advertising, labour recruitment, legal activities, accounting and auditing services, research and development, architectural and engineering activities, computer and related services, technical testing and analysis.

KIBS, according to a European Monitoring Centre of Change (EMCC) expert, is representing 7.6% of the total economic output of the EU, while also providing employment for almost 15 million Europeans. The sector encompasses NACE classification business services Section K (70-74). The KIBS sector is dominated by a few international firms, alongside a substantial number of small and micro-sized businesses. In terms of location, the United Kingdom (UK) is the EU country with the highest concentration of KIBS. It is also notable that the four largest economies in the EU (UK, Germany, France and Italy) contribute approximately three-quarters of the total KIBS sector output. [5]

Due to the fact that SMEs represent a quite common form of business in the provision of knowledge-intensive business services and these enterprises are charged with the task of the solving the problem of employment of working population, it is interesting to note that in the United States 92.3% of enterprises that provided knowledge-intensive services in 2008 were micro-enterprises by the American classification, i.e. with a number of employees up to 5 people. The leading direction in the United States knowledge-intensive services market is management and scientific and technical consultations, supplied by 32.9% of employees in knowledge-intensive SMEs. [12; 6]

The explanation of this phenomenon should obviously be sought in the following observations:

1. The global popularity and high reputation of American scientists with expertise in management and marketing. Powerful theoretical and technological base of consulting services in these fields;

- II. The operating result of the numerous American business schools, consistently occupying the leading position in the world rankings. Confidence in the acquired knowledge and skills, multiplied by the numerous and stable contacts of business school graduates (*alumni*) allows many professionals to choose the form of self-employment, and
- III. Confidence of the American business to outsourcing serves as a sufficient condition for the successful operation of micro-enterprises performing scientific and technical consultation.

Opportunities offered by modern computer technology to programmers, engineers, architects and other professionals in different disciplines of science, have pushed the boundaries of the business offers of high-technology services. With regard to management practice in the United States, this statement is proved by the fact that in 2008 computer system design, engineering and architecture services were delivered by 47.5% of micro-enterprises, employing 49.4% of the employees in this form of business.

However, the process of crossing the borders of the national market for SMEs has been associated with certain financial and marketing difficulties. Internationalisation may spur innovation, as note the United Nations experts, but it also generates significant competitive pressures for SMEs, which may require specific forms of support to address this challenge, providing them with the necessary international marketing and sales capabilities. [14]

Decision making on internationalisation of entrepreneurship

The traditional view that SMEs, especially small businesses, provide for the supply of goods and services primarily in the local markets, still has many supporters among both researchers and the community of entrepreneurs. But the entry of SMEs into the global market space or the internationalisation of business is considered as a quite accidental and sluggish process. Political and economic protectionism, even in the latent form contained in the declarations of many governments, only strengthens the position of supporters of the “creeping internationalisation” of SMEs. And the relative reticence inherent in entrepreneurs regarding the perception of the market space beyond the local market only slows down the process of internationalisation of SMEs.

The survey of 9480 companies conducted in 33 countries in Europe in spring 2009, also showed that the exit of SMEs beyond national borders has not yet become a mass phenomenon. Thus, in 2006–2008 only 44% of respondents were involved in at least one form of the internationalisation listed in Table 3.

Table 3 Forms of internationalisation of the European SMEs in 2006–2008 (share in the total number of surveyed enterprises, percentage) [8; 7-21]

		Number of employees (persons)			Total enterprises
		1–9	10–49	50–249	
Internationalisation forms	Exporting	24	38	53	26
	Importing	28	39	55	29
	Foreign direct investments	2	6	16	2
	International technical cooperation and subcontracting	7	12	22	7
	Has been a subcontractor to a foreign main contractor	7	11	17	8
	Had foreign subcontractors	7	12	16	7
Have operated at least one of the 6 internationalisation forms		43	58	73	44
Total enterprises		34	35	31	100

SMEs-importers demonstrated the biggest activity in the wholesale trade, however the SMEs-exporters – in the wholesale trade and manufacturing. SMEs-investors usually invested in business services, and SMEs-outsourcers bought or sold the transport and communication services. Moreover, technical and technological co-operation with foreign partners, as well as the functions of the customer or subcontractor is characterised by the “magic number” 7. Namely this was the proportion (7%) of entrepreneurs who have used a form of co-operative internationalisation in the reporting period.

The surveyed entrepreneurs named the following key factors that hinder the internationalisation:

- I. Internal barriers: price of their own product or service and the high cost of internationalisation.
- II. External barriers: lack of capital, lack of adequate information, and lack of adequate public support and the costs of or difficulties with paperwork associated with transport.

To be fair it should be noted that the vast majority of the surveyed companies produced and sold goods, a minor part provided services.

In the literature internationalisation as a form of the market activity is manifested typically in the co-ordinates of the export-import transactions and is identified, as a rule, with the activities of corporations. To be fair, it should be noted that the conclusions of scientists have also been confirmed by the statistics. Thus, the report of the European Commission in 2007 indicated that only 8% SMEs in the EU Member States have been

exporting, 12% purchased raw materials and components abroad and only 5% received income from investments abroad or have subsidiaries or joint ventures. In addition, experts have pointed to the inter-linkages between the internationalisation and size of the company, as well as to the significant growth potential of the internationalised SMEs and, in particular, micro-enterprises. [15; 13]

Modern researchers have modelled the internationalisation of SMEs as follows:

- I. Prior research on SME internationalisation has discussed three major internationalisation patterns: gradual internationalisation as proposed by the Uppsala model, radical internationalisation as proposed by past research on born global firms and international new ventures, and radical, but late internationalisation as evidenced by the so-called born-again global firms;
- II. Describing gradual internationalisation patterns, the Uppsala model has been applied both in the multinational entrepreneurship (MNE) and the SME context. The Uppsala model describes internationalisation as a self-reinforced and incremental learning process in which firms gradually acquire knowledge about foreign markets and increase their commitment towards those markets;
- III. The emerging body of born global firm research has shown that firms can become international shortly after or even from their inception. Observing the phenomenon of rapid, revolutionary and dedicated internationalisation, born global firm research challenges the assumption of gradual internationalisation from both conceptual and empirical standpoints, and
- IV. The born-again global firms differ from born global firm in the following respects: born-again global start internationalising much later, are well established in their home markets and have developed tangible resources that they can use for their international expansion. [13; 467-468]

Entrepreneurs who have taken the decision on the expansion to foreign markets by the “Uppsala model” algorithm have to reckon with the fact that its implementation may require quite a large investment and the implementation period would be longer than planned. In other words, SME owners should be patient. Therefore, the Uppsala internationalisation model focuses primarily on the management of large enterprises. It must be noted here that the radical internationalisation models are sufficiently adapted to the activities of SMEs, as they correctly interpret the representation of scientists on the applicability of Schumpeter’s ideas of entrepreneurs-innovators in today’s economy. Namely the emphasis on innovation is the hallmark of the radically internationalised entrepreneurs.

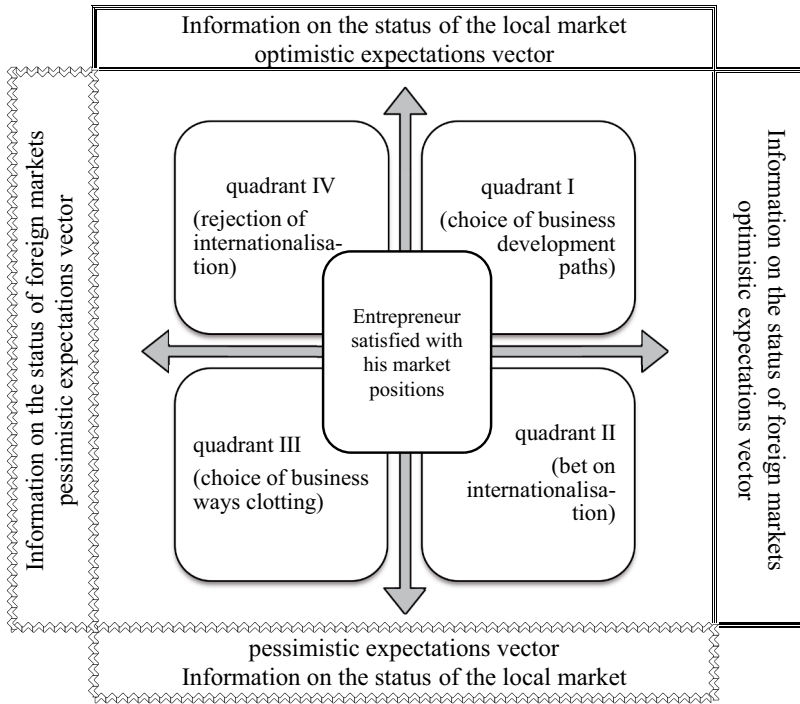


Figure 1 Entrepreneurs' decision-making options depending on the completeness and quality of market information in their possession

However, not all entrepreneurs who ventured to operate outside the borders of the national market space are, as mentioned above, the innovators. Many SMEs, including the knowledge-intensive ones, compete successfully in the global market, without being innovative. An entrepreneur's decision on the internationalisation of activity is determined, among other things, by the quality of information on the state of the market. An opinion of the professionals about the level of market competition and marketing research data, science-based assessment of the purchasing power and the opinion of compatriots about foreign countries represent an incomplete set of parameters to ensure the information for the entrepreneur's decision-making process. Moreover, modern ICT provide to the entrepreneurs-Internet users an access to a significant, but not always high-quality, amount of information. In other words, entrepreneurs-decision-makers may see the lack of information about internationalisation, as well as its excessive volumes as a more serious obstacle than the lack of investment source.

Behavioural options of entrepreneurs with the potential to internationalise their business, depending on the completeness and quality of market information in their disposal are illustrated in Figure 1.

An entrepreneur who does not have sufficient information to make a decision is likely to be satisfied with their position in the local market, i.e., will maintain its *status quo*. But in the case when an entrepreneur has enough information about both the local and foreign markets to make a decision, it will be difficult for him to decide. The entrepreneur's tendency towards the internationalisation of the business will increase if there is certainty of information about foreign markets and a lack of information to make a decision on the situation in the local market.

Thus the completeness and quality of market information constitute the preconditions for a decision by entrepreneur on business development. However, at this stage the problem of investing in the search and, most importantly, the analysis of the collected information gains prominence. SMEs are not always able to cover this type of investment, even with support from the state. The result is that the expansion of SMEs in foreign markets does not occur because of, but rather in spite of certain factors.

The issue here is that changes in the forms and methods of cooperation of enterprises that take place during the transition from machine domination in the production to a knowledge-based economy, have become a real catalyst for the expansion of SMEs outside the borders of the local markets. This, above all, concerns outsourcing – a form of co-operation between companies that differs regarding the volume of the factors of production employed.

A survey conducted in 2011 in the EU15 which covers nearly 40 000 businesses, each with more than 100 persons employed, for period 2009–2011 allowed specialists to formulate the following conclusions regarding the prevalence of sourcing:

- The highest share of sourcing internationally is found in small, open economies with high labour costs;
- Sourcing is still mainly driven by manufacturing enterprises that are increasingly sourcing support business functions;
- The number of enterprises sourcing knowledge-intensive support functions is growing;
- Proximity is a major factor in sourcing, with domestic sourcing being more prominent than international sourcing and with international sourcing mainly taking place within Europe; and
- Direct employment consequences are limited but their cumulative and indirect effects should not be underestimated.

The most common areas of outsourcing are distribution and logistics, marketing and sales, administration and management, research and development, engineering and ICT services. [9]

The initial spread of outsourcing services took place in the form of consulting and auditing firms. But in recent years, due to the rapid development and penetration of personal computers, the Internet and mobile communication in all spheres of life, software outsourcing has originated and is gaining popularity. When using software outsourcing the outsourcer takes over the functions of servicing the information system of the customer enterprise through consultation and administration, creation of software products and provision of other services. As a result, companies that have entered into an outsourcing contract, get the chance to perform several competencies in software services of their own business with greater benefits (usefulness) for themselves. How is it manifested?

First, the client-company enters into a contract with the outsourcer, the software service for which is a key competence. Consequently, the client-company saves on costs for servicing their own business, as it receives quality services provided by highly qualified specialists using the latest advances in the field of software development.

Secondly, the client-company receives high quality services as the outsourcing contract is usually drawn with the companies who accumulate knowledge in the field of software.

Thirdly, the client-company pays for the performed work, as a rule, in instalments, allowing its owners to optimise their cash flow.

The business activity of entrepreneurs who do not have the resources to promote their products and services to foreign markets is dependent on the ability to develop modern ICT. For an "advanced" entrepreneur the investment risk in the latest ICT achievements is often much lower than the traditional credit risk of timely recoupment of the investment in business development. Also, for the entrepreneur, especially a small-business owner, psychologically it is much more comfortable to be in the Internet "web" than embraced by bank clerks, tracking his or her credit history. For European entrepreneurs who are engaged in production activities in the traditional sectors of the economy, going beyond the borders of the local markets is an extraordinary event. SMEs in general and micro-enterprises in particular, cannot overcome, first of all, the investment barrier. State supports, as well as the development of the production co-operation with corporations are time-tested methods for the international expansion of SMEs, suitable for any business, including the knowledge-intensive ones. However, it does not take into account the specificity of the knowledge-intensive business – the information factor.

Conclusions

- The knowledge-intensive business is becoming a key factor for economic growth. This is due to the fact that traditional techniques of the use of knowledge in business that have evolved over centuries today are supplemented by new, ICT-based, forms.
- SME penetration is growing in the EU Member States, particularly in the manufacturing industry. It is necessary to appreciate the contribution of SMEs to solving the problem of the labour employment. At the same time the dominance of SMEs does not facilitate the rise in the number of high-tech enterprises.
- In the economy of the industrialised countries there is a clear trend towards the quantitative prevalence of KIBS over the high-tech production. In particular, this phenomenon is characteristic of the US economy.
- The prospective direction for strengthening the position of knowledge-intensive SMEs is an activity outside the borders of the national market space or the internationalisation of business activities.
- The quality of market information determines, among other things, the entrepreneur's decision about the internationalisation. A barrier to the internationalisation of SMEs is posed by quite large investments in the collection, processing and analysis of information for making a decision about entering foreign markets. An effective method for solving these problems could be presented by outsourcing.

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ORGANISATIONAL CLIMATE – LINKS TO MANAGERIAL PRACTICES AND INNOVATION

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Abstract

This article provides an overview of the role of organisational climate in context with managerial practices and innovation. Based on existing studies this article explicates the mediating role that climate plays between leadership as an antecedent factor influencing the intervening variable of climate, which, in turn, affects innovation. The purpose of this article is to discuss how leaders and managers affect innovation and creativity through their efforts to deliberately foster a work climate that supports creative thinking.

The first section is an explanation of the general concept of organisational climate. In the second section organisational climate will be linked to leadership and innovation. The final section is a conclusion in a manner of discussing the following proposition: *“Leader must learn how to create an organisational climate where others apply innovative thinking to solve problems and develop new products“*

Keywords: Leadership, organisational climate; climate for innovation

Introduction

Not only productivity, but also innovation performances have critical components for the competitive advantage of organisations. Innovation is important, because the market situation has become uncertain and complex. As a consequence organisations are forced to adapt to market conditions in the form of innovation. In the literature, numerous factors are discussed that have an impact on the innovation capability of organisations (Crossan and Apaydin, 2010). Thus, organisational structure, organisational culture and organisational climate are analysed as relevant variables for fostering an organisation's performance.

“Studies on organisational climate are a proven instrument for measuring the effectiveness of leadership, “says Jörg Hull, Vice President Leadership Transformation in the Hay Group. The organisational climate can determine whether employees experience is motivating or demotivating in the work environment. This results in direct conclusions regarding the performance of a company. But many scientific studies show that there exist a number of issues that need to be overcome before using the organisational climate as an indicator for conclusions about a company's performance.

Organisational climate vs. Organisational culture

As part of the literature review, it always comes back to the overlap of organisational culture and organisational climate. Often the two terms are also used interchangeably, but in these cases the terms don't show their real importance (Nerdinger *et al.*, 2014).

Different research perspectives. Both concepts come from different scientific developments. The climate concept is based on the psychological field theory of Lewin (1939). Aspects of culture are traditionally addressed by the scientific discipline of anthropology. It can be deduced also that these studies were carried out using different methods. In his comparison of the two literatures of culture and climate Denison (1996) stated, that traditional methods of studying culture relate to qualitative perspectives and studies of organisational climate are based on quantitative research designs (Denison, 1996).

Different implications. The term climate means consciously perceived processes and factors of the environment that can be controlled by the organisation. The focus of climate is on the situation and its link to perceptions, feelings, and behaviour of employees. It can be viewed as relatively temporary and as subject to direct control, that means also as subject to manipulation by authority figures (Denison, 1996), (Weiner, 2012). The term organisational culture, however, deeply rooted values and assumptions are addressed, which one is often not aware of (Schneider and Barbera, 2014), (Amjad and Bhaswati, 2014), (Nerdinger *et al.*, 2014). *“Meaning is established through socialisation to a variety of identity groups that converge in the workplace. Interaction reproduces a symbolic world that gives culture both a great stability and a certain precarious and fragile nature rooted in the dependence of the system on individual cognition and action”*

Table 1 Contrasting Organisational Culture and Organisational Climate Research Perspectives

Differences	Culture Literature	Climate Literature
Epistemology	Contextualized and idiographic	Comparative & nomothetic
Point of View	Emic (native point of view)	Etic (researcher's viewpoint)
Methodology	Qualitative field observation	Qualitative survey data
Level of Analysis	Underlying values and assumptions	Surface-level manifestations
Temporal Orientation	Historical evolution	Ahistorical snapshot
Theoretical Foundations	Social construction; critical theory	Lewinian field theory
Discipline	Sociology & anthropology	Psychology

Source: Denison, 1996

(Denison, 1996, pp. 624). In Table 1 Denison (1996) presents a summary of differences of research perspectives.

In summary it can be said that there is a lot of overlap between the two concepts and relationships, as well as differences exists. In research, often both terms are not sufficiently differentiated or used interchangeably. In contrast, organisational culture is stronger in organisational climate with a focus on the individual level and involves psychological concepts of perception, attitude, motivation and emotion (Ashkanasy *et al.*, 2011); (Nerdinger *et al.*, 2014).

What is Organisational climate?

Studies on organisational climate are a proven instrument for measuring the effectiveness of leadership, says Jörg Hull, Vice President Leadership Transformation in the Hay Group (HayGroup, 2013). Organisational climate can determine whether employees experience motivation or demotivation in the work environment. This results in direct conclusions about the performance of a company which can be drawn as many scientific studies show.

Organisational climate is a central concept in organisational psychology. Scientific knowledge is rooted in the 1930s on the Hawthorne studies. Here for the first time the employee was seen as a social being. As part of the human relations movement then the influence of social relationships and informal groups was analysed as a key way to improve the performance of the company (Bungard *et al.*, ©2007); (Nerdinger *et al.*, 2014). Kurt Lewin, Ronald Lippitt, and Ralph White (1939) were the first to use the term climate in psychological research. In their view “social” climate stands for the relationship created between leaders and followers as a function of a leader’s behaviour. $B = f(p,e)$ – B being the function between the person (p) and their environment (e) (Ashkanasy *et al.*, 2011).

Following the work of Lewin, research in the late 1950s through the early 1970s emphasised that the human context of organisations have been concentrated on:

- individual-level and organisational outcomes; Studies of: Argyris (1964); Likert (1967), McGregor (1960);
- consistency between climates and the needs or personalities of individuals within them; Studies of: George & Bishop (1971); Pervin (1967); and
- the impact that climates have on the performance and attitudes of individuals that work within them; Studies of: Litwin & Stringer (1968); Schneider & Bartlett (1968) (Weiner, 2012); (Schneider *et al.*, 2011).

How to define organisational climate?

Organisational climate is to be understood as a theoretical construct used to describe the perceived patterns in experience and behaviour of members of an organisation. These are very abstract components for developing a commonly accepted definition. The following table shows different approaches to define the meaning of organisational climate.

Table 2 Definitions of Organisational Climate

Forehand & Gilmer (1964)	the set of characteristics <ul style="list-style-type: none"> • that describe an organisation, that distinguish one organisation from other organisations • are relatively enduring over time • influence the behaviour of the people in the organisation
Tagiuri (1968)	a relatively enduring quality of the internal environment that is experienced by the members, influences their behaviour and can be described in terms of values of a particular set of characteristics of the organisation.
Litwin and Stringer (1968)	<ul style="list-style-type: none"> • the set of measurable properties of the work environment that is either directly or indirectly perceived by the employees who work within the organisational environment that influences and motivates their behaviour • is the sum of individual perceptions working in the organisation
Schneider (1974, 1983)	<ul style="list-style-type: none"> • concepts people share about the organisation • concepts, climate perceptions are meaningful abstractions of sets of cues, the cues being the many specific events, conditions, practices, and procedures that occur in the daily life of an organisation • concepts, climate perceptions help individuals reduce information overload and function as frameworks against which people identify behaviours that will adapt them to their situation
Payne, Pughes (1976)	produced by objective context and structure of organisation (size, hierarchy etc.)
James (1974, 1981, 1989, 1990)	collective perception of the work environment by the individuals within a common system.
Wiener (1988)	stable organisational characteristic that is maintained overtime and which gains considerable inertia as generations of workers come and go
Momeni (2009)	focuses on its members' perceptions of the way things are. It is the employees' perceptions and attitudes toward their organisation at any given time
Denison (1996)	the way in which organisational members perceive and characterize their environment in an attitudinal and value-based manner
Litwin (2001)	a group of measurable characteristics that members could perceive directly or indirectly in the work environment, a description of environmental factors, it could help researchers ascertain the effects of environment on employee motivation
Patterson, Warr & West (2004)	those aspects of the social environment that are consciously perceived by organisational members
Rosenstiel, Nerdingner (2011)	the relatively enduring quality of the internal environment of the organisation that is experienced by the members, influences their behaviour and can be described by the values of a certain set of characteristics of the organisation.

Source: based on Amjad and Bhaswati, 2014, Holloway, 2012, Weiner, 2012 and author's source analysis and own illustration

After analysis of the different approaches to definition, the following differences in the viewing can be identified (Bungard *et al.*, ©2007).

- *Structural approach.* Concentration to the consideration of structural and above all objectively observable facts in an organisation (size, hierarchy, span of control, resources, and rate of turnover).
- *Subjective approach.* The climate is conceptualized and measured at the individual's point of view in an organisation.
- *Cognitive approach.* Socially shared perception, cognitive interpretations of the context from the interactions of the organisation's members on selection and socialisation processes.

Despite the differing views on the definition of organisational climate can be stated as common: the internal environment is the relatively enduring quality of the internal functioning of an organisation; said quality arises largely from the behaviour, the rules and regulations in such a way as perceived by the members of the organisation; it can serve as the basis of the description of the internal situation of the organisation. Accordingly, the organisational climate can be defined:

- as the sum of perceptions of organisational conditions by the organisation's members,
- it is essential descriptive,
- it refers to the entire organisation or sub-systems, and
- has impact on the behaviour of the members.

Concept of Organisational climate

The practical benefit of measurement of organisational climate is immense for businesses.

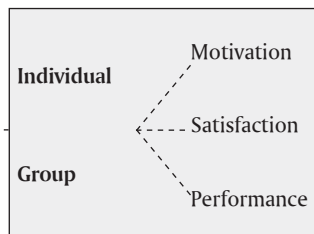
Influences on climate

External
- Physical environment
- Socio-cultural environment

Organizational
- Structure
- Technology
- Managerial behaviour
- Leadership pattern

Organizational
climate

Level of Perception and Behaviour



Source: Author's own illustration

Figure 1 Causes and consequences of organisational climate

With the result, the effects of organisational climate on the behaviour of organisation members can be analysed. However, there are effects due to the influence of the individual or other factors on organisational climate itself (Nerdinger et al., 2014).

Organisational climate as a dependent variable

Organisational climate can be made dependent on organisational objective conditions such as the size of the organisation, the organisational and operational structure, the relative number of hierarchical levels of formalisation, standardisation and centralisation of decision- making, but also on the prevailing technology in the organisation and the type of tasks. But the internal environment is also dependent on behaviour of organisation members, for example, of leadership behaviour, behaviour among employees or individual characteristics of the organisation members (Nerdinger et al., 2014); (Krause, 2013).

“Early research of a similar sort was conducted by Chris Argyris (1957), who inferred a climate existed for hiring only “right types,” and by Douglas McGregor (1960), who presented the thought that the fairness with which managers treated subordinates yielded a “managerial climate.” In both cases, the climate was, as in Lewin and colleagues, inferred and unmeasured.” (Ashkanasy et al., 2011, pp. 30)

Organisational climate as independent variable

Looking at the organisational climate as an independent variable, so it is likely in the present empirical studies that work motivation and performance, leadership, decision-making style, innovative behaviour of organisation members, job satisfaction, are influenced by the organisational climate (Nerdinger et al., 2014); (Krause, 2013).

Organisational climate as intervening variable

Based on the theory to be discussed organisational climate can also be regarded as an intervening variable that represents a moderating size, it must be examined between a cause and a consequence adopted (Kuenzi, 2008). The organisational climate as an intervening variable between leadership behaviour and innovation will be discussed later see therefore chapter – organisational climate- links to leadership and innovation (Isaksen and Akkermans, 2011).

Level of analysis problem

In organisational research of cognitive schema approach and the shared perception approach are paramount. The cognitive schema approach analyses the concept of climate from the individual level of perception and cognitive representation of the work environment. From this perspective climate assessments should be conducted at an individual level. The shared perception approach regards that the members of the organisation show characteristics that define and differentiate it (Weiner, 2012). A clear separation between personal and organisational variables is therefore hardly possible. L. R. James and Jones (1974) and also Ostroff et al. (2003) had disproved this apparent contradiction by declaring that the organisational climate can be described on an organisational level, as well as at the individual level, depending on the target of the investigation. The latter refer to them as psychological climate (Fleskes, 2006). Only on condition that a significant consensus on the individual subjective perceptions of climate member organisations, which individual psychological climates can be aggregated into an organisational climate (but not in the sense of objectification of perceptions). How large should this inter-subjective agreement be is scientifically still unclear, as is the appropriate method for determining such compliance (Langford, 2009), (Schneider and Smith, 2004).

“The issue is whether climate is an individual experience construct and/or one that assesses unit-organisational attributes. In other words, there was confusion between the level of the theory and the level of data and its analysis. The “problem” was that researchers were not clear about whether they were conceptualizing organisational climate as an individual differences variable representing individual experiences or as an attribute of the setting being described via the perceptions of those in the setting.” (Ashkanasy et al., 2011, pp. 33).

Climate Measurement – Dilemma of Climate-Dimensions

It is difficult to challenge specify what exactly describes organisational climate and which dimensions are important for this. For companies, this question is crucial because only in the defined dimensions effects can be measured and analysed¹. Some developed and applied in practice climate dimensions are briefly:

¹ Many methods have been developed to measure climate, only to improve the weaknesses detected by measure. In practices almost used the questionnaire-technique for this purpose com (2013).

Core dimensions of the psychological climate of Jones and James (1979)

1. Characteristics of the work and the role (autonomy, variety of tasks, role clarity);
2. Characteristics of Leadership (support, confidence, workload);
3. Characteristics of the working group (cooperation, warmth), and
4. Characteristics of the organisation and its subsystems (openness, fairness and objectivity of the reward system, possibilities of development) (Carr *et al.*, 2003), (Schneider and Barbera, 2014).

Dimensions of the psychological climate of Koys and DeCotiis (1991)

1. Autonomy (in terms of level of responsibility);
2. Cohesion (in the sense of cooperation, friendliness, warmth);
3. Confidence (in the sense of openness);
4. Pressure (in terms of labour and time pressure, role conflict, role overload);
5. Support (in terms of workload by the supervisor);
6. Recognition (in terms of feedback, reward, development opportunities);
7. Fairness (in terms of objective and fair reward systems, target transparency), and
8. Innovation (in terms of flexibility, risk-taking) (Carr *et al.*, 2003; Crossan and Apaydin, 2010).

Climate-Taxonomy of Ostroff (1993)

Ostroff (1993) ranked 12 climate-dimensions to three major facets:

1. *The affective facet* refers to interpersonal and social relationships among employees and includes the dimensions of participation, warmth, social recognition and co-operation (Carr *et al.*, 2003);
2. *The cognitive facet* describes the degree of involvement awareness, commitment of its employees. Among the dimensions fall growth, innovation, autonomy and intrinsic reward (Carr *et al.*, 2003); and
3. *The instrumental facet* concerns the work process itself and includes the dimensions of power, hierarchy, structure and extrinsic reward (Schneider and Barbera, 2014), (Carr *et al.*, 2003).

Organisational Climate Measure (OCM) Patterson et al. (2005)

Based on the Competing Values Model (CVM) by Quinn and Rohrbaugh (1983) developed Patterson et al. (2005) the Organisational Climate Measure (OCM). The OCM combines four originally contradictory approaches and ideologies of organisational psychology together:

- (a) Human Relations approach;
- (b) Internal Process approach;

- (c) Open Systems approach, and
- (d) Rational Goal approach.

The approaches differ in their beliefs about how organisations and their managers can achieve the goals and the company's success at best (Patterson *et al.*, 2005):

- (a) The *Human Relations* approach emphasises aspects that are related to trust, belonging, motivation and group dynamics. The OCM detects the degree of care for the employees of the organisation (Welfare), whose autonomy at work, opportunities for training and support from their superiors (Patterson *et al.*, 2005);
- (b) The *Internal Process* approach Taylorist sense is the control and coordination of internal organisation in the foreground (central structure). Here the degree of formalisation and aspects related to tradition and rules shall be measured (Patterson *et al.*, 2005);
- (c) The *Open System* approach focuses on growth and expansion, which, according to this ideology can be realized by a high degree of adaptability of the company to external requirements (decentralised structure). It measures the degree of flexibility and innovation (Patterson *et al.*, 2005); and
- (d) The *Rational Goal* approach places emphasis on productivity, goal achievement and performance of the company. The OCM detects the transparency of the organisation's goals, efficiency, product quality, time pressure and performance feedback (Patterson *et al.*, 2005)

Patterson *et al.* (2005, see also Quinn & Rohrbaugh, 1983) assume that organisations have varying degrees characteristics of all ideologies. For example, organisations need both adaptive (open system approach) and resistant (Internal Process approach).

(Schneider *et al.*, 2000) has just realized that in the development and measurability of the dimensions of a problem (Schneider *et al.*, 1995). Often all sorts of performance factors of a company are used. On the other surveys in research and practice are more likely to be corporate and situation-specific and designed so that other substantive dimensions are considered significant. Schneider and other experts from research and practice argued for the organisational climate should be considered to be multi-specific, for example as a climate in relation to something, e.g. *Climate for innovation* or for leadership. Only by this specific viewing the concept, in the first step and precise be operationalised meaningful results and then also meaningful interpretation and action implications are derived (Schneider *et al.*, 1995; Bungard *et al.*, ©2007; Krause, 2013).

“The development of this more focused approach also resulted in the climate construct being more available to practitioners because it literally focused on important organisational processes and outcomes and indicated specific actions that might be taken in organisations to enhance performance in those areas.” (Ashkanasy et al., 2011, p. 31)

There exist a lot of issues that need to be overcome in studies referring to the organisational climate. Summarised they can be named as followed:

- Cognition schema or shared perception. That means a differentiation between the aggregation of individual perceptions (“Psychological climate”) or shared perception (Schneider and Barbera, 2014), (Weiner, 2012), (Langford, 2009);
- The sense of measuring one organisational climate or different climates, the communication climate, service climate, the climate for creativity, etc. (Schneider et al., 1995); and
- The increased conceptual complexity in studying climate as a potential mediator and moderator variable. Five of the most significant achievements (Ashkanasy et al., 2011).

Organisational climate – links to leadership and innovation

The purpose of this section is to discuss on how leaders and managers affect innovation and creativity through their efforts to deliberately foster a work climate that supports creative thinking.

“Leader must learn how to create an organisational climate where others apply innovative thinking to solve problems and develop new products.”

Based on the above-described theory of organisational climate, discussion is divided into two parts. So that initially Thesis 1 will be discussed:

Thesis 1: Leader must learn how to create an organisational climate.

- (a) Has Leadership an influence on the organisational climate?
- (b) Can Leaders create an organisational climate?

Thesis 2: Organisational climate applies innovative thinking to solve problems and develop new products.

Thesis 1: This question has already adopted by a number of researchers; the key statements are summarised in the table below:

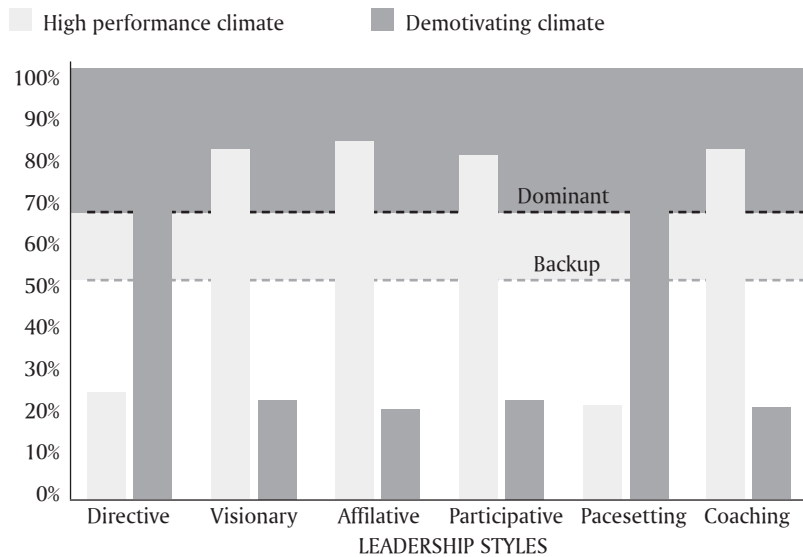
Table 3 Relation between Leadership-style and organisational climate

Kozlowski & Doherty (1989)	Theorists e.g. Blake & Mouton (1964), Lewin (1951), Likert (1967), Litwin & Stringer (1968), McGregor (1960) analysed in their studies that leadership is one of the most important organisational factor that affected employees' perceptions of climate.; study in non-profit organisation; relations-oriented leadership behaviours have a positive and significant relationship with the organisational climate dimensions reward and warmth.
Kouzes and Posner (2010)	Leader's behaviour explains nearly 25 percent of the reason that people feel productive, motivated, energized, effective, and committed in their workplaces
McClelland, David C. & Burnham, David H. (1995)*	Concluded that right managerial style is an important ingredient in the profile of an effective manager; study conducted on 50 managers in a large, highly hierarchical organisation.; better organisational climate is strongly related to democratic and coaching style.
Ingles, S. & Moreno (1998)*	Strong relationship was found between styles and climate. Total climate correlated positively with the Authoritative, Affiliative, Democratic and Coaching style.
Mulrooney, C. & Sala, F. (2002)*	Test on 61 managers in 25 health care systems located in 15 US states. Each style dimensions correlated with each organisational climate dimensions. Coercive and Pace-setting Democratic and Coaching tended to correlate positively.
V. S. R. Vijay Kumar (2007) *	Estimated model, which is different from proposed model, shows the direct effects of directive and participative style and intervening effects of the work related beliefs and values in shaping up of climate perceptions. While directive style results in unfavourable climate perceptions, diversity tolerance and individual orientation moderate by reducing the unfavourable perception and its effects are enhanced by diversity tolerance and team orientation.
Momeni (2009)	Leader's behaviour has a great influence on employees' attitudes, behaviours, emotions, morale, and perceptions; more than 70% of employees' perceptions of organisational climate are shaped directly by their leader's style of leadership and behaviour: Results of the study: the higher a manager's EI, the better that manager's OC. indicate OC is more influenced by self-awareness and social awareness, e.g. good communication skills, interpersonal expertise, and mentoring abilities.
Holloway (2012)	Survey on 303 employees; web-based questionnaire consisting of 79 questions; result indicate a positive and significant relationship between relations-oriented leadership behaviours and the organisational climate dimension reward and warmth

* cited in (Balameenapriya and Krishnapriya, 2014).

Source: based on Kozlowski and Doherty, 1989; Holloway, 2012; Kouzes et al., 2010; Momeni, 2009; author's own illustration.

The consulting firm HayGroup conducted a large-scale study on the topic of influence of leadership styles on the organisational climate of 2010. A total of 101 organisations and over 8,000 managers were interviewed (incl. direct reports). The result of the study is shown in the following figure (HayGroup, 2011)



Source: HayGroup, 2011.

Figure 2 Typical leadership styles profile in relation to climate

Figure 2 clearly shows how the individual leadership styles are perceived by the employees. The leadership style in a “high-performance” climate is visionary, affiliative, participative and coaching. Here are relationship-oriented leadership styles that show interest in their team and the people. Other characteristics are a great confidence in capabilities and joint decisions (HayGroup, 2012).

Answering question for Thesis 1:

Based on the identified results from the studies can be said in summary that (a) Leadership a strong influence on the organisational climate. Overall, it is clear from the studies that different leadership styles are perceived differently; (b) the relationship-oriented leadership styles have

a positive influence on the organisational climate.(Momeni, 2009) comes to the conclusion that regarding following aspects, leaders can create a positive working environment, perceived by the employees as positive organisational climate:

- Developing and improving face-to-face communications, giving enough information;
- Fostering ethical behaviour;
- Showing care for and respect to employees by expressing appreciation and gratitude;
- Handling grievances seriously and fairly;
- Integrating employees in solving organisational problems, being receptive to new ideas, and caring about the employees' problems;
- Showing fairness through fair salaries and rewards;
- Encouraging and facilitating teamwork;
- Creating situations in which employees get a sense of pride about working as a members of the organisation, and
- Making the work environment friendly through sincerity and sympathy, all of which increase employees' loyalty to the organisation.

Thesis 2: Organisational climate applies innovative thinking to solve problems and develop new products

To be able to operationalise and interpret the organisational climate plausible meaning, it is as described by Schneider discussed (Schneider et al., 1995), are not considered a molar rather than specific climate for innovation. Organisational climate for innovation has been identified as a productive concept to use in preliminary and sustained organisational diagnosis for development or improvement efforts (Isaksen and Akkermans, 2011). Organisational innovation depends on a climate that supports innovation. Only a few models explicitly explain the content and functional importance of innovation climate. The following model is one of the most used and refined models for measuring climate for innovation. Ekvall (1996) has found that measures of creative climate have significantly differentiated innovative from stagnated organisations (number of patents obtained, technical and market originality, business strategy, success in developing and launching new products and services) (Ekvall, 1996).

Creative Climate Questionnaire (CCQ)² – Ekvall (1991)

Ekvall (1991) defined climate as the observed and recurring patterns of behaviour, attitudes, and feelings that characterize life in the organisation. (Isaksen and Akkermans, 2011). During the 1980s Ekvall developed a measurement tool to study whereby creativity / innovation is influenced in organisations. He developed 10 dimensions that can be grouped into three areas.

Resources: Idea Time; Idea Support; Challenge

Motivation: Trust and Openness; Playfulness and Humour; Conflicts

Exploration: Risk-taking; Debates; Freedom, Dynamism

As the main results of the studies it can be summarized, that climate dimensions assessed by the instrument make a difference between innovative and stagnated organisations. Between the climate dimensions Risk Taking, Dynamism, Freedom, and Debates is a strong correlation for radical innovation (opposed to incremental innovation) behaviour. The leadership style of the manager has substantial correlations with the climate dimensions. Creative climate is positively caused by change-oriented leadership style and task- and structure-oriented style has weak or zero correlations to creative climate-dimensions.

“The conclusion should be that the climate to a fairly large extent is in the hands of the manager“ (Ekvall, 1996, pp. 122).

Answering Thesis 2:

Numerous conducted by Ekvall (1983, 1987, 1991) studies show that certain dimensions such as Risk Taking, Dynamism, Freedom and Debates have a strong relationship with a positive innovative behaviour. It could also be noted that change-oriented leadership style has a positive impact on climate for innovation.

Now the mediating role that climate plays between leadership as an antecedent factor influencing the intervening variable of climate, which, in turn, affects innovation become evident. A few studies have examined how climate intervenes between leadership behaviour and innovative outcomes (Table 4).

² CCQ meanwhile refined to Innovation Climate Questionnaire (ICQ) by adding four additional scales: stress, shared view, pay recognition, and work recognition, and modifying two other scales: idea-proliferation and positive relationships. The ICQ incorporates thirteen scales: ‘commitment’, ‘freedom’, ‘idea-support’, ‘positive relationships’, ‘dynamism’, ‘playfulness’, ‘idea-proliferation’, ‘stress’, ‘risk-taking’, ‘idea-time’, ‘shared view’, ‘pay recognition’, and ‘work recognition’.

Table 4 Climate for innovation as moderating variable

Ekvall and Ryhammer (1998; 1999)	CCQ, Responses from 130 faculty members (Sweden); high evidence for the intervening role of climate for innovation
Jung, Chow, and Wu (2003)	Structural equation modelling, 32 electronics and telecommunications companies from Taiwan; Transformational leadership was significantly and positively related to organisational innovation and support for innovation. Both climate variables of empowerment and support for innovation were found to moderate the effects of transformational leadership on organisational innovation.

Source: Based on Isaksen and Akkermans, 2011; Wu and Shi, 2008; author's own illustration

Both researchers detected the high evidence for the intervening role of climate for innovation.

Conclusion

Since leadership behaviour has such an influence on climate, and climate influences innovation, the discussion shows the intervening nature of creative climate between leadership behaviour and innovative productivity.

The previous analysis of the theses has shown that there is a high correlation between leadership support for innovation and the climate for innovation. That means as the level of leadership support for innovation increased, there would be a corresponding increase in the positive aspects of creative climate. It was further determined that climate, as an intervening variable, moderate or mediate the relationship between leadership behaviour and innovative productivity. Although one must say that leadership behaviour is clearly one of the key influencing factors affecting organisational creativity and innovation. Some of the literature points to the kinds of leadership behaviour that is more likely to positively affect these types of organisational outcomes. Thus, it was found that especially relationship-oriented leadership styles have a positive influence on the organisational (Momeni, 2009). Especially with this style one of the ways leaders influence innovation is through creating a climate that encourages creativity and the implementation of creative ideas. That comes to the conclusion that regarding following aspects, leaders can create a positive working environment, perceived by the employees as positive organisational climate for innovation.

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MEASURING BRAND EMOTIONS IN CONTEMPORARY BUSINESS TO BUSINESS MARKETING RESEARCH

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Abstract

While brand images and their emotionalisation have been subject to professional management and research in the consumer industry since the mid-20th century, the relevance of brand images to investment good markets has long been neglected. The common conception in Business-to-Business (B2B) marketing was, and partially still is, that purchasing decisions of B2B customers were solely based on functional and technological product requirements such as price and specified performance parameters. Based on this conception, the relevance of brand images as an influencing factor of organisational purchasing behaviour has neither been sufficiently considered by marketers nor academics. However, at the brink of the new millennium, research has started to appreciate that even with technically homogenous products, differentiation through branding and brand images are possible and even required in order to increase product and company awareness, especially on saturated and matured markets. The purpose of this article is to review different methods to measure emotions evoked by brand stimuli, particularly in a B2B context. Prior to this, the study aims at finding a working definition for emotions in contemporary marketing research as these complex mental states have been subject to misunderstanding and controversial debates for centuries, and still an undisputed definition does not exist. The PAD theory developed by Albert Mehrabian and James A. Russell comprising the three dimensions Pleasure-Displeasure, Arousal-Non-arousal and Dominance-Submissiveness is identified as appropriate to reconcile controversial academic discussion and provide guidance for contemporary marketing research. Subsequently, various methods of measuring emotions, ranging from subjective to physiological measuring, are reviewed and an appropriate and manageable method for B2B contexts is proposed.

Keywords: emotions, brands, brand images, B2B, measurement methods

Introduction to Emotions, relevance and understanding for marketing research

Emotions, or early precursors of what is nowadays described by this term, have been subject to philosophical and academic discourse for over 2000 years, even if in varying forms and with differing understandings¹.

Charles Darwin's 1872 "The Expressions of the Emotions in Man and Animals" was his major contribution to psychology and is concerned with how human expressions and movements link with emotional states, and are genetically determined and derive from purposeful animal actions. This work in a very comprehensive way identified universal emotional expressions, including pictures of various emotional states common to humans and animals.

Evaluation of human behaviour over centuries was determined by **rational choice theories**, in which context the **economic man** or *homo economicus* as a narrowly self-interested being striving to maximise their benefit was a major conception (Mill, 1836). These theories attempt at explaining complex social behaviour with simple and generalizable and objective assumptions. The concept of the **reciprocal human** states that humans will compromise in order to achieve a balance between what is best for them and what is best for the environment they are part of (Diekmann & Voss, 2004). Adam Smith², in his work "The Wealth of Nations" puts it as follows:

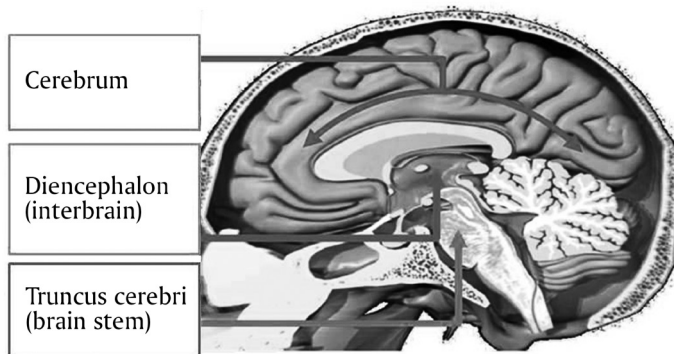
"Man has almost constant occasion for the help of his brethren, and it is vain for him to expect it from their benevolence only. He will be more likely to prevail, if he can interest their self-love in his favor, and show them that it is for their advantage to do for him what he requires of them... It is not the benevolence of the butcher, the brewer or the baker that we expect our dinner, but from their regard to their own interest...." (Smith, 1776/2009).

These rationalist notions stem from the fact that until the late nineteenth century, research had focused on "inanimate objects in a physical world" (Collis & Hussey, 2009, p. 55), of which Newton's works are popular examples. But even far into the twentieth century, rational assumptions lasted, even sparked with the event of computers, comparing the human brain and subsequently human decision making with rational and logical processes similar to electronic computing.

¹ Ancient Greek Philosophers Epicurus and Aristippus of Cyrene referred to "Lust" or "Joy" as main characteristics of (human) feeling.

² The term "economic man" was used for the first time in the late nineteenth century, but has been commonly attributed to the notions of Adam Smith and hence used in connection with Smith.

Hence, when it comes to emotions and their influence on decision making, it was not until in the mid-nineties of the twentieth century when American neurobiologists Damasio and LeDoux found through their research on injured brains, that emotions by no means were mere disturbances in the decision process, but rather requirements for decision making processes and that without emotions decisions were not even possible, (Häusel, 2012, pp. 73-74). For a better understanding of emotions and their origin, the composition of the human brain in a simplified form is displayed in Figure 1.



Source: Author's own, adapted from Häusel, 2012

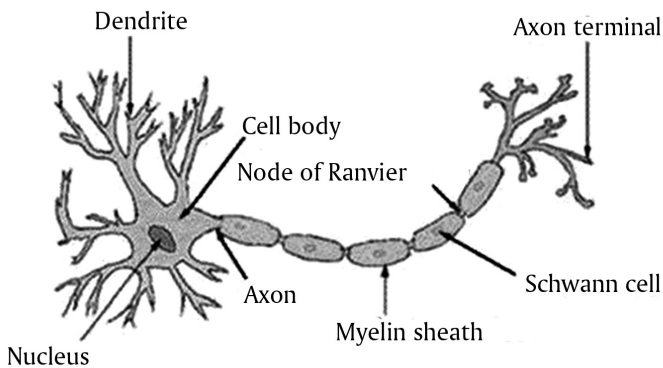
Figure 1 Simplified Structure of the Brain

The human brain can be divided into three zones, on the lower part the brain stem on top of which the interbrain is located and on the upper part the Neocortex as the biggest part of the brain. Today it is widely accepted, that the entire human brain is more or less emotional, the front areas more so, the rear cerebrum and the cerebellum less so (Häusel, 2012, p. 75). The **limbic system** is a complex set of brain structures that lies on both sides of the thalamus, right under the cerebrum. It is a group of structures which govern emotions and behaviour, which is why this area of the brain is of increased interest for the discipline of Neuro-marketing. The limbic system, and in particular the hippocampus and amygdala, is involved in the formation of long-term memory³, and is closely associated with the olfactory structures (US Library of Medicine, 2014).

³ Emotions evoked by a brand stimulus are weaker than acute emotions such as being afraid of a threatening animal. Therefore, cognition plays an important role, i.e. knowledge a person has acquired in their long-term memory which is retrieved when that person is subject to a brand stimulus.

Transmission of (brand-) information in the brain happens via electrical signals, so called action potentials. An action potential occurs when a neuron sends information down an axon. This involves an explosion of electrical activity, where the nerve and muscle cells resting membrane potential changes. Action potentials can travel along axons at speeds of 0.1-100 m/s. This means that nerve impulses can get from one part of a body to another in a few milliseconds, which allows for fast responses to stimuli. The speed is affected by 3 factors (cf. biologymad.com):

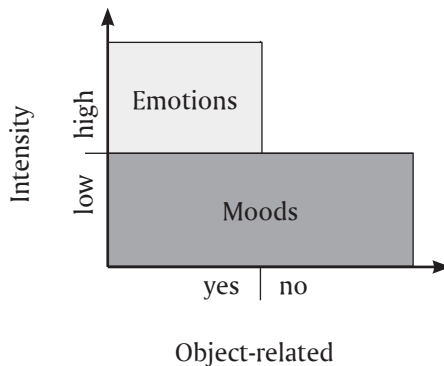
- Temperature: The higher the temperature, the faster the speed. So homoeothermic (warm- blooded) animals have faster responses than poikilothermic (cold-blooded) ones.
- Axon diameter: The larger the diameter, the faster the speed. So marine invertebrates, which live at temperatures close to 0°C, have developed thick axons to speed up their responses. This explains why squid have their giant axons.
- Myelin sheath: Only vertebrates have a myelin sheath surrounding their neurons. The voltage-gated ion channels are found only at the nodes of Ranvier, and between the nodes the myelin sheath acts as an electrical insulator. The action potential can therefore jump large distances from node to node (1mm), a process that is called saltatory propagation. This increases the speed of propagation dramatically, so while nerve impulses in unmyelinated neurones have a maximum speed of around 1 m/s, in myelinated neurones they travel at 100 m/s. Figure 2 depicts the neuronal structure.



Source: biologymad.com

Figure 2 The Neuronal structure

The above excursion into the brain's composition, the limbic system and neuronal transmission illustrate why emotions play such an important role and have as strong a behavioural influence. From an operationalization standpoint it is to be seen as a difficulty that there are various proposed definitions of emotions, a clear common ground has so far not been identified (Trommsdorff & Teichert, 2011, p. 60). For the purposes of this article, it is therefore important to define emotions as the main construct for a subsequent classification of emotional and rational brand images. Emotions are often confused with *feelings* and *moods*. Figure 1 depicts the differentiation between emotions and moods, which lies particularly in the notion that emotions are strong and feelings which are object-related, i.e. directed to a person or an object (Werth, 2010, p. 159) whereas moods can be rather diffuse and unrelated to an object and tend to be more long-lasting, for instance melancholy. **A brand, for that matter, can also constitute an object, its visual or logo representing a stimulus evoking an emotion**, which presents a crucial notion for this article.



Source: author's own based on Werth, 2010

Figure 3 Differentiation between Emotion and Mood

Feelings can be experienced in very fine nuances, which is why emotion research attempts to classify this variety (Trommsdorff & Teichert, 2011, p. 63). Paul Ekman developed a Facial Active Coding System (FACS) allowing identifying of emotions based on facial expressions, which was later redeveloped as a tool to identify and recognise facial expressions, then called Facial Expression, Awareness, Compassion, and Emotions (FACE). Izard (1981) speaks of ten basic emotions which can be observed independent of cultural context. Table 1 summarises and compares emotions as per the above, as well as Plutchik's categorisation for eight primary emotions (Plutchik, 1980).

Table 1 Comparison of Basic Emotions according to Ekman, Izard and Plutchik

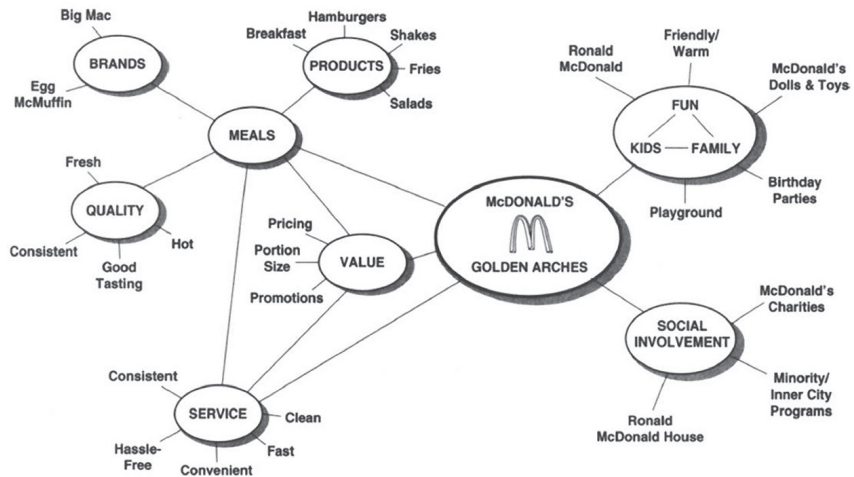
Ekman	Izard	Plutchik
Joy	Joy	Joy
Anger	Anger	Anger
Disgust	Disgust	Disgust
Fear	Fear	Fear
Contempt	Contempt	
Sadness	Distress	Sadness
Surprise	Surprise	Surprise
	Interest	Acceptance
	Shame	Anticipation
	Guilt	

As can also be seen from Table 1, some basic emotions such as joy, anger or disgust are common to contemporary frameworks, while at the same time there are differences in the understanding and acceptance of other emotions. As there is presently no one empirical solution to the question which component is sufficient to define emotions (Desmet, 2002), it is a fair approach to state that individually experienced **emotions** have an impact on:

- the **individual emotional experience of a subject**, i.e. the feeling which is being associated with a specific emotion (Plutchik, 1980), as well as
- **physiological reactions**, e.g. increased heart rate or blushing which are called physiological components, and
- the **behaviour of subjects** which is expressed by posture, mimic, gestures and voice tonality which referred to as motoric-expressive components (Darwin, 1872/1998).

Moreover, emotions have a **cognitive aspect**, in that experienced emotions are being compared to knowledge a person has about an actual stimulus. From a branding perspective this represents an important notion. Association networks, also referred to as brand maps, are used to illustrate cognitive effects (John, 2006), as shown in Figure 4.

The emergence of the Pleasure Arousal and Dominance Theory (PAD), contributed to reconciling a scientific dispute on what valid definitions for basic emotions are. In their studies, Russel and Mehrabian (1977) provided evidence that three independent dimensions, being pleasure (as opposed to displeasure), arousal (as opposed to non-arousal) and dominance (as opposed



Source: Aaker, 2010

Figure 4 Exemplary Brand Map for a consumer product

to submissiveness) are both necessary and sufficient to adequately define emotional states (Mehrabian & Russel, 1977, p. 273)⁴.

Working definition brand images and brand emotions

The word brand stems from the old Norse word *brandr* which means to burn, as it was practiced to mark livestock in order to be able to identify the animals and tell them from those of another owner (cf. ama.org). The oldest generic brand, in continuous use in India since the Vedic period (app. 1100 B. C. to 500 B. C.), is the herbal paste known as *Chyawanprash* (Keller, Aperia & Georgson 2008, p. 2).

In that sense, branding has existed for centuries as a way to distinguish the goods of one producer from those of another (Keller, Aperia & Georgson 2008, p. 2). According to the American Marketing Association (AMA), a brand is a name, term, sign, symbol, or design, or a combination of them to identify the goods and services of one seller or group of sellers and to differentiate them from those of competition. This definition, however, only comprises what was known as *brand elements* (Keller, Aperia & Georgson 2008), but it does not satisfy contemporary understanding of

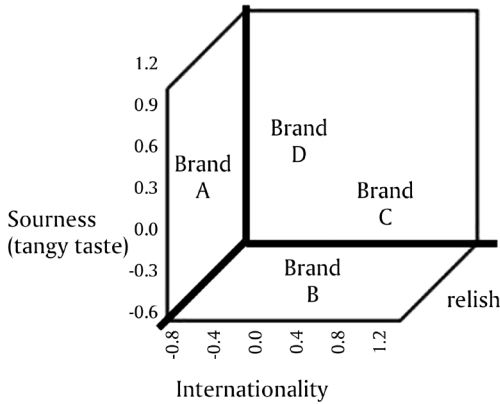
⁴ The methodologies SD and SAM, reviewed at a later stage in this article, relate to the PAD theory

what a brand is. Due to the criticism of this rather legal or attribute-focused⁵ brand definition in marketing research, a more consumer- (or more generally customer-) focused perspective has been accepted. Hence, **brands can be defined as time-stable images which are anchored in consumer's minds about a product, leading to preferences for a product which adds other dimensions and therefore differentiates it from other products designed to satisfy the same need** (Aaker, 1991) (Esch & Stenger, 2013) (Keller, Aperia & Georgson 2008), (Kotler & Pfoertsch 2006).

After establishing a working definition of brands, the following section deals with the image. Brand image has been an important concept in consumer behaviour research since the early 1950s (Dogni & Zinkhan, 1990). *“One of the recent developments in consumer psychology is the growing emphasis on low involvement consumer behaviour. Under a variety of circumstances, consumers are neither capable nor motivated to elaborate product information. It is assumed that, under these circumstances, they are likely to make use of product or brand images. This concept is frequently referred to in the marketing and marketing research literature. However, image is not an unequivocal concept. There is lack of agreement on what constitutes an image, on the possible psychological functions of images, on the conditions under which these psychological functions are addressed, and on how an image should be operationalized”* (Poiesz, 1989). Tromsdorff describes image as a multidimensional and holistic basis of a target group's attitude towards a product or brand (Trommsdorff & Teichert, 2011, p. 133). As an adequate method for image positioning, Tromsdorff further suggests to correspond with the characteristics of images and their dimensions and to capture their influence on attitudes and preferences of the consumers. The competing brands can be depicted along all, but at the same time limited to, the image dimensions relevant to competition, as shown by Figure 5.

For the further conceptualisation of the research, it is now necessary to establish a differentiation between rational and emotional brand images. There are various models attempting to structure the various brand associations and cluster separable image components. When describing brand identity, three aspects have to be differentiated: Firstly, capturing the elements of the brand identity, secondly identifying perspectives to capture these brand elements and thirdly the evaluative attribution and structuring of brand identity (Radtke, 2014). The 1992 Identity Prism by Kapferer is hereby the oldest model for describing and capturing brand identity. Another popular model is the icon brand steering wheel which

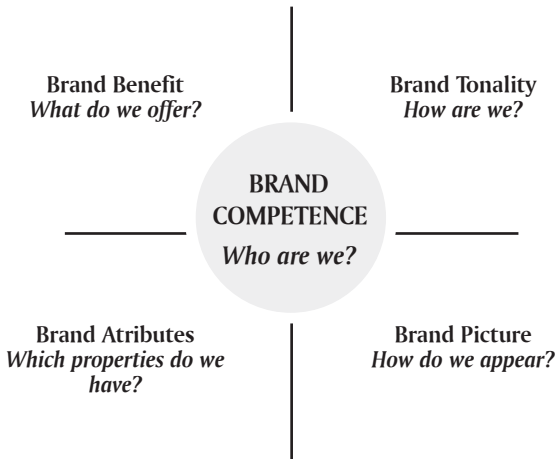
⁵ Interbrand, one of the world's leading brand consultancies, remark on their homepage that they “started in 1974 when the world still thought of brands as just another word for logo” (www.interbrand.com).



Source: Author's own, adapted from Tromsdorff, 2011

Figure 5 Brand positioning in a three-dimensional image room using the example of beer

was further developed by Franz-Rudolf Esch (Esch, 2003). Figure 6 shows the brand steering wheel.



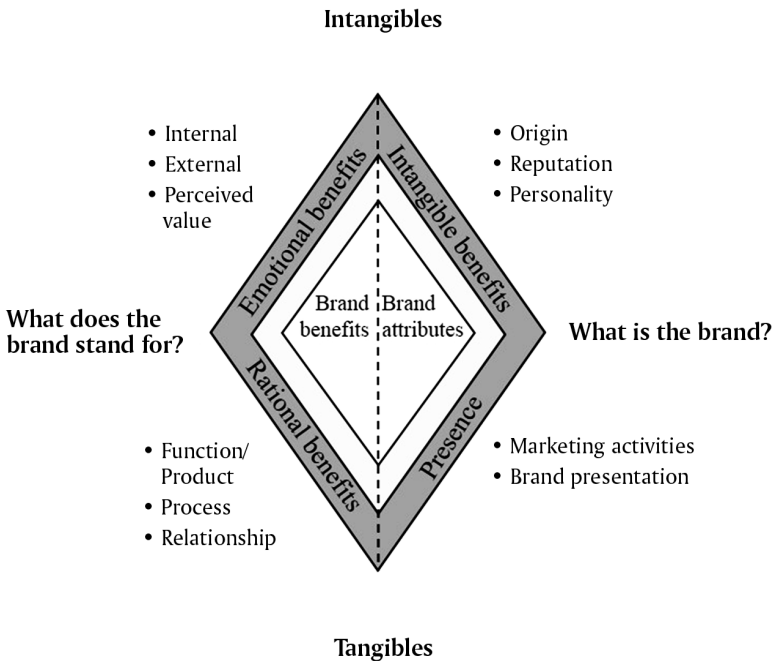
Source: Esch, (2003)

Figure 6 Brand Steering Wheel

The left side of the brand wheel represents the hard facts, e.g. brand attributes (which properties do we have?), the brand benefits (what do we offer?), of a brand whereas the right side stands for the soft facts, i.e.,

feeling and non-verbal impressions such as brand tonality (How are we?) and Brand image (How do we appear?). Similar to the model of Aaker⁶, in the centre part of the brand steering wheel, brand competency (Who are we?) are located as the extract of the brand identity.

The Brand Diamond by McKinsey&Company (McKinsey&Company, 2008) is one of the most comprehensive models of structuring brand images. The tangibles on the bottom right represent clearly observable, physical qualities of a brand whereas intangibles are of connotative nature displays brand benefits, which are both rational and emotional. The right side displays brand identity, which includes both what is done in the market and the reputation which is being built. The brand diamond is depicted in Figure 7. •



Source: Mc Kinsey, 2008

Figure 7 Brand Diamond as a Structuring Model for Brand Images

⁶ Aaker refers to the center of his model as brand essence or brand core.

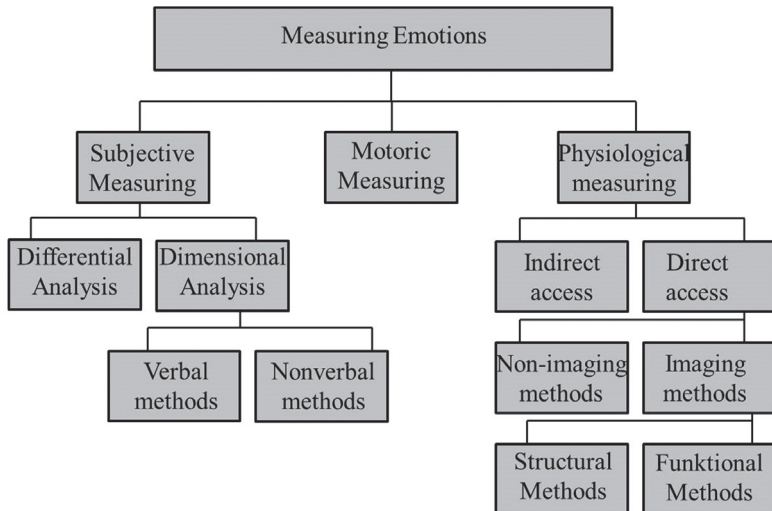
Common to these models, two of which have been briefly introduced, is that they both consider rational and emotional aspects. Taking into account the consumer (or customer) oriented understanding of brands and images which has been established for this research, it must be assumed that there is a multitude of images of the same product or brand, depending on the individual (cognitive, cultural, personal etc.) background of each subject.

Derived from these findings after elaborating on emotions and models of structuring brand images **emotional brand images** shall be defined as such **brand images which evoke strong (positive) emotions among a significant proportion of the participants.**

Conversely, rational brand images shall be brand images which do not evoke strong (positive) emotions among a significant proportion of the participants.

Methods of measuring brand emotions

There are different means of measuring emotions, each with advantages as well as disadvantages in terms of validity, reliability and objectivity as well as the effort and cost of preparation and conduct associated with each methodology and their suitability for the respective research purpose. Figure 8 provides an overview.



Source: Author's own

Figure 8 Measuring Emotions

On a **subjective** level, non-verbal methods to measure emotions measure either the expressive⁷ component of emotion, whereas verbal methods rely on (mostly written) self-reports⁸ (Desmet, 2002). **Physiological** measuring comprises of techniques which detect physiological signals, whereby emotional arousal (activation) is either directly or indirectly⁹ measured. Electro Encephalogram (EEG), Magnetoencephalography (MEG) or Functional magnetic resonance imaging (fMRI), provide direct access. fMRI also provides corresponding graphic images. Ekman's Facial Active Coding System (FACS) is an example for **Motoric** measuring.

The following sections elaborate on a selection of methods on a verbal, non-verbal and physiological level which have been successfully used in a marketing research context.

Verbal measurement

One of the most popular, and still widely practiced, forms of verbal measurement of brands and corporations is the **Semantic Differential (SD)** introduced by Osgood, Suci and Tannenbaum in their 1957 "The Measurement of Meaning". Initially, as the name suggests, it was meant to measure meanings of words, the Semantic Differential consists of a standard set of rating scales of contrasting adjective pairs such as warm-cold, beautiful-ugly etc. as bipolar items (Trommsdorff & Teichert, 2011, p. 147). These polar adjectival pairs on equal 7-point interval scales were selected from 50 pairs with heavy factor loadings called "evaluative", "activity" and "potency" (Mindak, 1961). In marketing practice, the Semantic Differential is often varied in order to fit to the marketing problem at hand, by, for instance, weighting individual items more strongly or adapting word pairs corresponding to the respective research purpose (Mindak, 1961). SD has produced acceptable results in measuring subjectively experienced emotions (Fry & Claxton, 1971) (Mehrabian & Russel, 1977).

The Guttman scale, named after Louis Guttman, in statistical tests or surveys describes a form of binary answers, e.g. yes or no and therefore constitutes a one-dimensional continuum. Alternatively, nonmetric scaling procedures have been used (Fry & Claxton, 1971). There is, however, strong criticism of verbal measurement, stemming from the notion that especially weak feelings are only weakly distinct and therefore less conscious which is why answers to corresponding questions are likely to reflect thinking

⁷ Cf. The Self-Assessment Manikin or PrEmo

⁸ Cf. The Semantic Differential (SD)

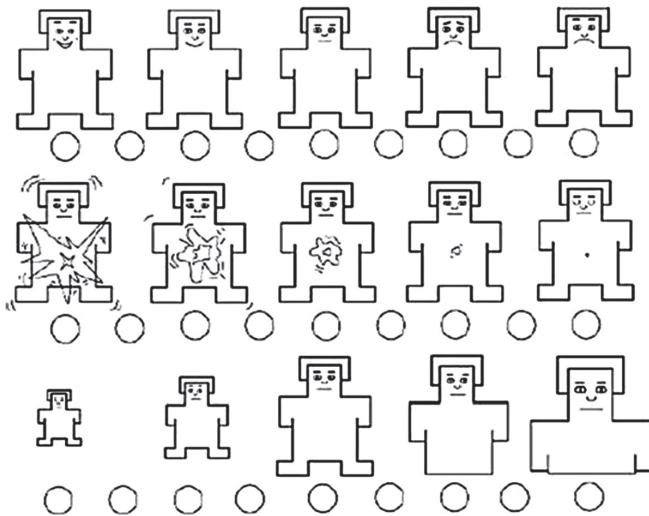
⁹ For example, Electro Dermal Response (EDR) or Electromyographic Activity (EMG)

rather than feeling. Another issue is that feelings are often complex and composed of various basic emotions; subjects may therefore not be able to articulate their feelings (Trommsdorff & Teichert, 2011, p. 69). Socially desirable responding is also a typical bias leading to untrue statements about an experienced feeling (Steenkamp, De Jong & Baumgartner, 2009).

Non-verbal measurement

The **Self-Assessment Manikin** by Peter Lang, as a form of non-verbal measurement, depicts the Pleasure Arousal Dominance (PAD) model with a graphic character arrayed along a continuous five-, seven- or nine-point scale (Morris, 1995), as shown in Figure 9. It helps overcome the criticism that is being posed against verbal methods. *“To make the PAD approach functional by quickly establishing a response to a given stimulus; applicable, by accurately reflecting a subject’s full range of feelings; and useful, by measuring affective responses among many different audiences without linguistic interference, a visual rather than a verbal response measure is needed”* (Morris, 1995).

SAM has been used in many psychophysiological studies with high correlations between SAM scores and those obtained from semantic



Source: Morris, 1995

Figure 9 Self-Assessment Manikin

differential procedure, pleasure and arousal with both a value of .94 were highly significant, dominance at .66 less so, however, still substantial (Morris, 1995). SAM has frequently been used in combination with the Semantic Differential and produced high correlations in all three dimensions (Bradley & Lang, 1994). A weakness of the SAM is, however, that rather than measuring distinct emotions, but generalized emotional states along the PAD dimensions (Desmet, 2002).

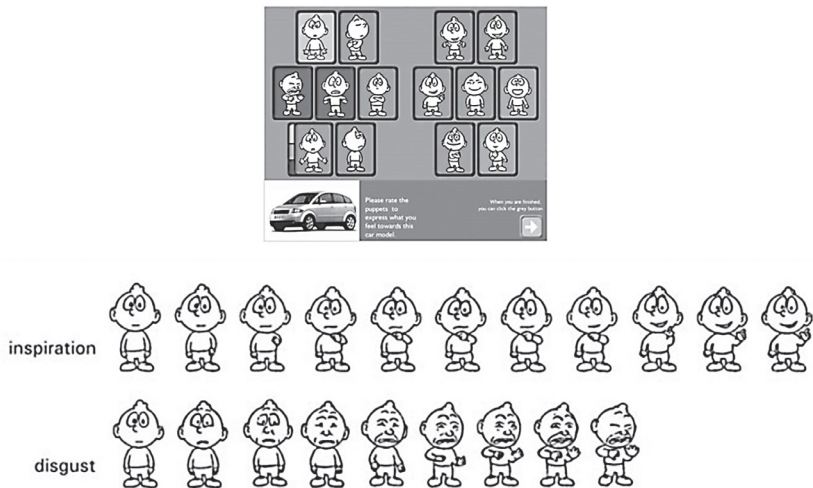
Desmet et al. therefore developed an instrument for emotions evoked by products called **Product Emotion Measurement** instrument (PrEmo), the research funded by Mitsubishi Motor R&D. This measurement instrument assesses emotional responses to consumer products. Designed as a nonverbal self-report instrument, it measures a set of 14 emotions, seven positive and seven negative ones which had been narrowed down through four empirical tests from originally 347 by excluding irrelevant emotions and merging those with high similarities. Each emotion is portrayed with an animated cartoon character with bodily, facial and vocal expressions and presented on a computer interface, operated on a self-running basis. Each still of the 14 emotions is accompanied by a hidden three-point scale. These scales represent the following ratings: "I do feel the emotion," "to some extent I feel the emotion," and "I do not feel the emotion expressed by this animation." Table 2 displays the 14 emotions.

Table 2 Positive and Negative Emotions of PrEmo

Positive Emotions	Negative Emotions
Desire	Disgust
Hope	Fear
Pride	Shame
Joy	Sadness
Admiration	Contempt
Satisfaction	Dissatisfaction
Fascination	Boredom

Source: Desmet, 2002

Figure 10 exemplarily shows the user interface of PrEmo, as well as the graphic display of the emotions inspiration and disgust by animated characters.



Source: Desmet, 2002

Figure 10 PrEmo Dynamic Cartoon animations

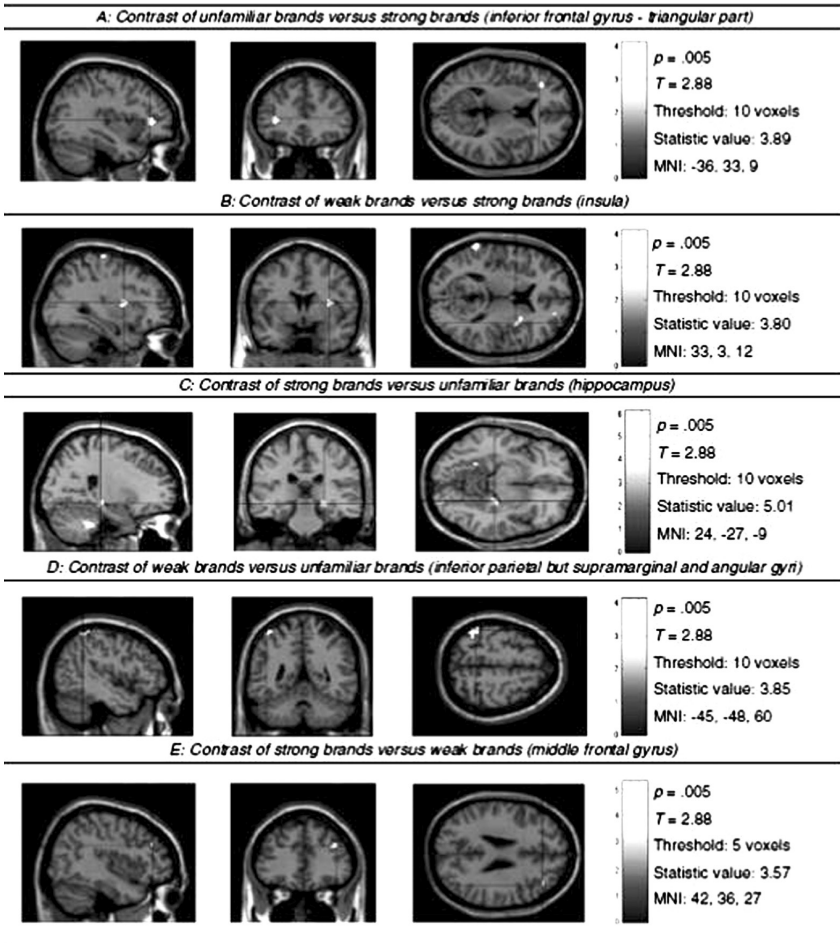
While the advantages of the PrEmo can be found in its combination of animations and sound as a good representation of emotions, its pictorial approach offering high cross cultural applicability, PrEmo had its weak points, too. Such it was criticised that the three-point scale may be insufficient for the differentiation for the experienced emotions. Also, some of the animations were not completely clear to the users. For these reasons, PrEmo was redesigned, introducing new characters and animations, as well as improvements on the user interface (Caicedo, 2009).

Physiological measurement

With the event of Neuro-marketing in the early 2000s, physiological measurement of emotions has gained increasing attention in consumer research. *“Brain imaging techniques provide a powerful new methodology for consumer psychology. They can validate verbally based research, but also refine and advance existing theory”* (Esch, Möll, Schmitt, Elger, Neuhaus & Weber, 2010).

Functional magnetic resonance imaging or functional MRI (fMRI) is a functional neuroimaging procedure using MRI technology that measures brain activity by detecting associated changes in blood flow (Huettel, Song & McCarthy, 2009). fMRI measures metabolic activity in the brain

utilising different magnetic properties of oxygenated and deoxygenated blood (Häusel, 2012, p. 234). Neurons consume oxygen; therefore neuronal activation causes an increased blood flow. The oxygen is being transported by haemoglobin acting as a blood colorant. In consumer studies (Esch, Möll, Schmitt, Elger, Neuhaus & Weber, 2010), fMRI tests have shown that different brand stimuli activate different cerebral areas, the different activations depending on whether a brand is strong or weak / the subjects are familiar with the brand or not, as shown in Figure 11.



Source: Esch et al., 2010

Figure 11 fMRI pictures showing brain activity under different brand stimuli

Compared to Positron Emission Tomography (PET) or Single-photon emission computed tomography (SPECT)¹⁰, fMRI is non-invasive and lacks radiation burden, moreover, dimensional and temporal resolution is advanced. In many experiments, fMRI not only confirmed, but also generated new and insightful results. It is to be noted, however, that this method depends on cerebral blood flow (CBF), cerebral blood volume (CBV) and cerebral metabolic rate of oxygen (CMRO₂), as well as co-operation of subjects. As it provides an indirect insight into the brain (cf. fmRIeasy.com), fMRI tests have to be carefully planned and (brand) stimuli tested separately since within a human brain are affected in single steps. Each step is therefore subject to an individual test, which makes fMRI procedures quite complicated and prone to error. Despite their effectiveness in Neuromarketing research, fMRI is therefore not to be considered as a *decoder* of the consumer's mind (Häusel, 2012, pp. 236-240).

Conclusion

One of the main reasons for B2B branding being a comparatively under researched discipline – apart from the fact that B2B buying has long been seen as a highly rational process – is that gathering empirical data is far more difficult than in B2C contexts since most B2B companies have far fewer customers (Kotler & Pfoertsch, 2006, p. 21), who in addition may, due to time constraints and confidentiality policies, be reluctant to grant researchers insights into their buying behaviour. The methodology applied in this research must therefore be as quick and non-invasive as possible while at the same time providing comprehensive and acceptable data for the research. The selected methodology must take into account that participants from various countries with different native languages, as well as different cultural framing will be subject to the survey. Association of emotions to rather abstract words is considered problematic in some cases, this circumstance is expected to be even more ponderous when participants are to rate their emotions in a language other than their native one. The requirements and boundary conditions hence call for a valid and comprehensive, yet easy to use, non-verbal methodology with minimal impact on the participants. An fMRI-survey is therefore not ideal for this research since B2B professionals and deciders subject to B2B research are not likely to undergo such a procedure, the cost of app. 30.000 Euros for an experiment with 15-20 persons (Häusel, 2012, p. 237) is another limitation. Based on the discussed methodologies, the Self-Assessment Manikin is proposed as a valid and reliable method for measuring

¹⁰ With PET and SPECT, contrast agents are used for imaging.

emotional stimuli evoked by brands. In previous research SAM has shown high validity in consumer studies (Morris, 1995), (Esch & Stenger, 2013) and high correlations with accepted verbal methods (Bradley & Lang, 1994).

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DIVIDEND POLICIES OF JOINT-STOCK COMPANIES IN UZBEKISTAN

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PhD

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PhD

Abstract

During the years of Independence, Uzbekistan made substantial efforts to create a favourable investment environment, broad system of legal guarantees and privileges for foreign investors. The state guarantees and protects the rights of foreign investors, which carry out investment activity within the Republic of Uzbekistan. In the event, the consequent legislation of Uzbekistan makes investment environment less favourable, then, within 10 years from the moment of investment, foreign investors will apply the legislation, which was in effect as of the date of investment. In 2014 the volume of investments in the economy grew by 10.9 percent and amounted to the equivalent of 14.6 billion US dollars. It should be noted that more than 21% of all investments or more than 3 billion dollars, accounted for foreign investments.

The privatisation of large industrial enterprises played an important role in attracting foreign investments and expansion of private sector's share in domestic economy. Uzbekistan privatised a large number of state enterprises in 1990's as a part of the transition process. By late 1990's, almost all small and medium-sized enterprises in retail trade, services, food industries, transport and construction had been privatised. In 2005 the privatisation of state owned enterprises have been initiated which allowed private investors to buy shares in previously state-owned joint-stock companies. As a result of the privatisation, as well as support to SMEs, the share of the private sector in GDP has increased from 30% in the mid-1990s to 55% in 2014.

The expansion of private sector's participation in various sectors of Uzbek economy imposes additional requirements to corporate governance and protection of rights of private investors. However, corporate governance in large enterprises still remains weak. Many enterprises are dominated by directors, while the interests of other shareholders and society may not be properly protected. The distribution of profits is one of the important issues for most investors, especially for minority shareholders and individuals. According to the regulator of the securities market in Uzbekistan, 95% of the securities accounts opened in the national depository system belong to individuals. For private investors it is particularly important to understand the dividend policies of joint-stock companies. Consistency and transparency of the dividend policy is important in working with investors, maintaining a dialogue with minority shareholders and ensuring the attractiveness of shares to investors.

This article deals with the regulation of the process and payment of dividends in joint-stock companies in Uzbekistan, analyses recent trends in the payment of dividends in the joint-stock companies representing various sectors of the economy.

Keywords: Uzbekistan, Joint-stock companies, minority shareholders, shareholders' meeting, income distribution, dividend policies, dividend payments, stock exchange.

Introduction

Joint-stock companies (JSC) represent the basis of modern industry in Uzbekistan, which has increased significantly its share in GDP from 14% in 1991 to 24% in 2014. At present more than 1100 joint-stock companies operate in Uzbekistan, most of them being created as a result of the privatisation process in the 1990s and still some of the important enterprises maintaining the government share in their capital. They represent large enterprises operating in manufacturing, oil and gas, mining, chemicals, construction materials, financial services and other sectors of the economy. Total share capital of joint-stock companies exceeds 11.7 trillion soums (equivalent of 4775 Billion US Dollars at current exchange rate) as at the end of 2014 and this amount has grown 5.3 times for the last ten years.

Corporate governance in large enterprises still remains weak, existing rules and regulations require revision. Many enterprises are dominated by directors, while the interests of other shareholders and society may not be properly protected. This is especially true in case of JSC with state ownership, where minority shareholders in practice have to vote in corporate governance and the decision-making process. Recently it is being recognised by the government that corporate governance principles and practices should be revised based on the experience of industrially developed countries, especially with regards of distribution of income, the role of state in corporate governance and further privatisation of state-owned enterprises.

Regulatory requirements in respect of dividends

The question of distribution of profit and dividend payments is one of the key issues for investors. Legislation in the field of the securities market and joint-stock companies sets out a number of requirements for decision-making and distribution of net profit enterprises. In particular, Article 55 of the Law of Uzbekistan "On joint-stock companies and protection of shareholders' rights" stipulates that the payment of dividends and its amount belongs to the competence of the general shareholders' meeting based on the recommendation of the Supervisory Board.

In the corporate legislation of Uzbekistan there is no definition of “dividend”. Among the provisions of the Civil Code of Uzbekistan, Article 43 states that the memorandum of association specifies the conditions and procedure for distribution of a legal entity’s profit and losses among the participants. In Article 59 of the Civil Code among the rights of participants of the legal entity states the right to participate in distribution of profits, while the Article 65 of the Law “On joint-stock companies and protection of shareholders’ rights” defines the distribution of profit and losses as the exclusive competence of the general meeting of shareholders.

However, the Company Law uses the notion of dividend (articles 53, 54, 55, 56). In the author’s opinion, the concept of “profit distribution” in the Civil Code of Uzbekistan and the term “dividend payment” in the Company Law are used interchangeably. This opinion is also in line with the civil law as a means of understanding the distribution of profits among the shareholders of the joint-stock companies. There is every reason to believe that the legislation considers that the dividend is part of the income of society, which is to be divided among the shareholders.

The law states that the amount of dividends may not exceed the amount recommended by the Supervisory Board. In this regard, in preparation for the convening of the general meeting of shareholders, which agenda includes the issue of dividends, the Supervisory Board prepares recommendations on the amount of dividends. Recommendations of the Supervisory Board with respect to the payment of dividends shall be based on the results of financial and economic activities of the company, which needs to be confirmed by the opinion of the independent auditors and the audit committee. As a rule, many joint-stock companies hold annual general meetings during May–June, where the issues related to auditors reports and distribution of profits shall be considered.

To receive dividends are entitled the shareholders recorded in the register of shareholders formed for the general shareholders’ meeting. According to legal requirements, the company closes the register of shareholders 3 calendar days before the official announcement date of the General Meeting of Shareholders, which will consider the distribution of profits of the company. As the analysis of trading at stock exchange shows, during the general meeting of shareholders many owners held back from selling their shares as interested in receiving dividends.

All shareholders included in the register of shareholders of the Company, have the opportunity to attend and vote at the general meeting of shareholders, including on the issue of distribution of profits of the company. Therefore, it is important for small shareholders to participate, vote and, if necessary, to clarify certain issues. Voting at the General Meeting of Shareholders based on the principle “one voting

share of the company – one vote”. The decision of the General Meeting of Shareholders shall be adopted by simple majority. It should be noted that the general meeting of shareholders is competent if more than 60% shareholders of representing common shares of the Company have been registered.

The Company Law establishes a number of restrictions on the conditions under which and how much corporation shall be entitled to payment of dividends. In accordance with Article 60 of the Company Law, the joint-stock company may not decide to pay dividends in the following cases:

- Until full payment of the share capital of the company. Until full payment of the charter capital, dividends may not be declared or paid.
- If at the time of payment of dividends, the joint-stock company has the elements of bankruptcy or the payment of dividends may cause such consequences. This restriction on the payment of dividends is a standard safeguard in the interests of creditors.
- If on the day of the decision to pay dividends, the value of company's net assets is less than the sum of its charter capital and reserve fund. This is a common provision in the Law designed to protect the interests of creditors and shareholders.

In order to protect the rights of shareholders and creating equal access to material information about the Company's activity, in accordance with the legislation establishes disclosure requirements for issuers on the general shareholders meeting, issues on the agenda, etc. Thus information about the general meeting of shareholders shall be communicated to the shareholders by publishing relevant information in the press and sending them a written notice on the basis of the register of shareholders. Additionally, information about material facts, including the accrual of income on securities, start and end dates of payment of dividends must be submitted to the Centre for Coordination and Control of the Securities Market no later than two working days from the occurrence of a material fact as well as during the same period published in the media.

Corporate Dividend policies

Dividend policy is a specific set of rules applied by joint-stock company in performing its obligations with respect to dividend payments for quite a long period. The dividend policy of the company may be formulated under the influence of various economic and political factors as well as tactical and strategic goals and objectives and the requirements of the market in the current period.

In the authors' opinion, the presence of a clear policy on the payment of dividends is an important factor in the investment attractiveness of

enterprises. According to international practice, large enterprises should use transparent and clear mechanism for determining the amount of the dividend. To do this, a clear approach to dividend policy should be developed, which includes the following:

- part of net profit used for payment of dividends;
- terms of dividends payments, including the date, place and form of payment;
- minimum size of dividends on shares of different types; and
- the conditions under which dividends for preferential shares can be deferred.

Companies not only need to develop a clear dividend policy, but also to inform about its policy market participants on a regular basis, for example, through the corporate web sites and social media channels. In Uzbekistan, for instance, the securities market regulator annually announces the list of periodicals for mandatory publication of notices related to shareholders and dividends.

It is essential to comply with the adopted approach in terms of dividend payments. This is due to the shareholders' right to receive part of income via dividend payments as well as commitment of Issuer Company to meet its obligations. Market participants prefer a situation in which the dividend payments are more or less predictable. On the one hand, it allows the market to maintain confidence in the level of stock prices and their gradual and constant increase. On the other hand, such policy allows the joint-stock company to plan operations, investment and dividend payments. Unpredictable and unstable dividend payments under normal conditions may not satisfy the market participants as well as the company.

Based on the analysis of existing common approaches applied by companies in Uzbekistan, the following types of dividend policies can be defined:

1. Policy of stable dividend payments, when dividend is defined as a certain percentage of net profits. This approach reduces uncertainty for investors.
2. Policy of flexible dividend payments. This approach means that the company may provide stable dividends in good years (so called premium payments) to compensate the lesser payments in other years. However, this policy makes sense only if the profit of the company varies considerably from year to year.
3. Residual dividend policy, which means the amount of dividends, depends on other major factors such as investment decisions. This policy is used by companies, where investment opportunities and flows are not stable and subject to external factors, for instance, the government's relevant programs.

4. Dividend policy actions. This policy involves the issuance of dividends in the form of shares, i.e. the issuance of additional shares to shareholders. Such dividends may be declared when the company's financial situation is not very stable; it is unable to ensure the payment of cash dividends.

The practice of paying dividends

The authors' analysis shows that many joint-stock companies have taken the decision to pay dividends to shareholders. As practice shows dividends are paid by most companies, although amount of dividends differs. For example, in the large commercial banks dividend yield ratio, i.e. the ratio of amount of dividend to nominal value of shares ranges from 2.5% to 15%. As expected, private joint-stock banks tend to deliver higher dividend yield ratio. In the authors' opinion, the level of dividends in the Uzbekistan's banking sector is largely affected by a number of factors, including the shareholders structure, profitability of banking operations, level of state intervention, as well as the track record of dividend payments. This is also in line with some other authors, who find that banks with higher profitability or performance pay more dividends in Korea (S. Lee, 2009), as well as large and more profitable companies have a higher dividend payout ratio in Poland (O. Kowalewski et al, 2007).

Table 1 Dividend payments in selected joint-stock companies in Uzbekistan

Issuer company	Date of decision on dividend payments	Amount of dividends per share	Dividend yield ratio
Banks			
Ipotekabank JSC	21.05.2010	150 soums	15%
Aloqabank JSC	25.05.2010	8 soums	8%
Trustbank JSC	25.06.2010	690 soums	69%
Industrial enterprises			
Uzmetkombinat JSC	5.06.2010	42.76 soums	3.75%
AGMK JSC	21.05.2010	51.46 cym soums	5.15%
Kyzilkumsement JSC	7.05.2010	7 002,00 soums	7%
Ferghanaazot JSC	28.06.2010	39.86 soums	0.4%
Trade and services			
Chilonzor Buyum Bozori JSC	15.04.2010	250 soums	25%
Uztelecom JSC	25.06.2010	43.45 soums	4.3%
Matbuot Tarqatuvchi JSC	28.05.2010	305.64 soums	30.56%

Source: www.gazetabirja.uz, www.orientcap.uz

Most large enterprises allocate a significant portion of net profit to implementation of investment projects, including the purchase of new equipment, construction of new facilities, etc. It should be noted that such a policy is stimulated by the presence of a number of tax benefits. For instance, dividends received by legal entities as a return on funds allocated for capitalisation and investments are exempt from taxation. Also in accordance with the Tax Code of the Republic of Uzbekistan dividends re-invested into share capital of the legal entity, from which they have been derived, are not taxable.

Table 2 Dividend Yield Ratios by sectors of economy in Uzbekistan

No.	Sectors	Average dividend yield ratios, 2007
1.	Agriculture	28.3
2.	Banking	21.7
3.	Construction	20.9
4.	Financial services	20.8
5.	Machine building	15.4
6.	Transport	15.0
7.	Chemicals	13.7
8.	Energy	13.5
9.	Services	8.2
10.	Food processing	6.6

Source: www.avestagroup.uz

In accordance with the law, the payment of dividends in the first place paid dividends on preferential shares, then dividends on ordinary shares. The payment of dividends on preferential shares, in case when net profit is not adequate, is possible from the reserve fund established for this purpose. The minimum amount of dividends on preferential shares of joint-stock companies shall be defined in the statute of the company. In practice, many companies tend to pay higher dividends on preferential shares compared to ordinary shares. For example, the JSC “Uzpromstroybank” decided to pay dividends on preferential shares for 2009 in the amount of 20% of their nominal value, which is much higher than the level of dividends to ordinary voting shares. “Uzbektelecom” paid on ordinary shares 2.5% dividends, while on preferential shares – 25%. However, the level of dividend payments varies significantly in different companies.

Conclusions and suggestions

This article shows that regulatory framework plays an important role in the practice of dividends. In many large enterprises a significant portion of net profit goes to the implementation of investment projects, which is largely motivated by the presence of various tax and other fiscal benefits. For instance, in accordance with the Tax Code of Uzbekistan dividends re-invested into share capital of the legal entity are exempt from taxes. It should be noted that corporate governance is an important determinant in explaining the dividend policy of public companies in Uzbekistan. In the authors' view the level of dividends in the banking sector is largely affected by the shareholders structure, profitability of banking operations, level of state intervention, as well as track record of dividend payments.

In accordance with the legislation, a set of requirements have been introduced for public companies to ensure timely provision of information to all shareholders with respect to distribution of profits and payment of dividends. However, the quality and scope of information provided by some joint-stock companies in practice is not adequate and does not provide many investors, especially minority shareholders with clear understanding of company's policies and possible actions with regard to income distribution and dividend payments. In the authors' opinion, the combined effort of the securities market regulator, as well as the professional associations should be aimed at introducing the mandatory disclosure of dividend policy adopted by the shareholders at the general meeting.

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