

ISSN 1691-5348

# **Journal of Business Management**

Issue No.10

2015

## ***THE EDITORIAL BOARD***

Dr. *K.Balaton*, Corvinus University of Budapest, Hungary  
Dr. *D.Kamerade- Hanta*, University of Birmingham, United Kingdom  
Dr. *O.Gjolberg*, University of Life Sciences, Norway  
Dr. *J.Hassid*, University of Piraeus, Greece  
Dr. *V.Kozlinskis*, Head of the Editorial Board, Riga International School of Economics and Business Administration, Latvia  
Dr. *V.Kundrotas*, Adizes Graduate School, USA  
Dr. *T.Mets*, University of Tartu, Estonia  
Dr. *D.Pavelkova*, Tomas Bata University in Zlin, Czech Republic  
Dr. *A.Sauka*, Stockholm School of Economics in Riga, Latvia  
Dr. *I.Sennikova*, Riga International School of Economics and Business Administration, Latvia  
Dr. *I.Strelets*, Moscow State Institute of International Relations, Russia  
Dr. *T.Volkova*, BA School of Business and Finance, Latvia  
Dr. *B.Butler*, Curtin University, Australia

## ***FOREWORD***

Management has relatively recently evolved into a legitimate field of research by separating from economics. This gradual separation, or specialisation, implies both positive and negative consequences. The weakening of the crucial linkage between economics and management is one of the evident consequences.

The Journal of Business Management No.10 comprises some scientific papers that present studies situated on the border between Economics and Management.

All the papers were double blind peer reviewed. Following the necessary corrections and additions resulting from the review process the 12 accepted papers were included into the issue.

**TABLE OF CONTENTS**

<b>Butler, B., Surace, K.</b> <i>CALL FOR ORGANISATIONAL AGILITY IN THE EMERGENT SECTOR OF THE SERVICE INDUSTRY</i>	<b>4</b>
<b>Muradli, R., Volkova, T.</b> <i>STRATEGIC INNOVATION APPLICATION IN CREATIVE INDUSTRIES IN LATVIA</i>	<b>15</b>
<b>Pavlovska, O., Kuzmina-Merlino, I.</b> <i>FUNCTIONS AND FEATURES OF CONTROLLING IN MULTINATIONAL CORPORATIONS</i>	<b>28</b>
<b>Kuznecova, J., Cirule, I.</b> <i>THE AGE OF MARRIAGE MATTERS: SOCIAL ENTREPRENEURS' MATURE AGE AND BUSINESS SUSTAINABILITY</i>	<b>37</b>
<b>Wascinski, T., Wojcik K.A.</b> <i>METHOD FOR MEASURING THE EFFECTS OF FIRMS' RESTRUCTURING PROGRAM</i>	<b>47</b>
<b>Henilane I.</b> <i>REVIEW OF HOUSING MORTGAGE LENDING POLICY PRACTICES IN LATVIA</i>	<b>59</b>
<b>Stukalina Y.</b> <i>MANAGEMENT IN HIGHER EDUCATION: THINKING AND PLANNING MORE STRATEGICALLY</i>	<b>70</b>
<b>Brence, I., Dubickis, M.</b> <i>STUDENTS WORKLOAD DURING THEIR STUDY PROCESS: EVIDENCE FROM LATVIA</i>	<b>80</b>
<b>Lapina, G., Sluka, I.</b> <i>PROJECT LAB AS A LEARNING TOOL FOR DEVELOPMENT OF PROJECT MANAGEMENT COMPETENCES AT UNIVERSITY</i>	<b>91</b>
<b>Barbars, A.</b> <i>INTERACTION BETWEEN ORGANIZATIONAL CULTURE AND WORK ENGAGEMENT IN AN IT DEPARTMENT WITHIN FINANCIAL INSTITUTION</i>	<b>106</b>
<b>Avota, S., McFadzean, E., Peiseniece, L.</b> <i>LINKING PERSONAL AND ORGANISATIONAL VALUES AND BEHAVIOUR TO CORPORATE SUSTAINABILITY: A CONCEPTUAL MODEL</i>	<b>124</b>
<b>Aljena, A.</b> <i>WHY CONTEMPORARY FINE ART ARTISTS ARE STARVING IN LATVIA?</i>	<b>139</b>

# CALL FOR ORGANISATIONAL AGILITY IN THE EMERGENT SECTOR OF THE SERVICE INDUSTRY

**Bella Butler**

*Senior Lecturer, Curtin University, Australia*

*e-mail: [bella.butler@cbs.curtin.edu.au](mailto:bella.butler@cbs.curtin.edu.au)*

**Kayla Surace**

*Business Analyst, Metrix Consulting, Australia*

*e-mail: [kayla.surace@metrixconsulting.com.au](mailto:kayla.surace@metrixconsulting.com.au)*

## **Abstract**

Purpose of this conceptual study is developing the theoretical framework for investigating organisational agility in small and medium enterprise in the newly emerging industry.

Design of research is based on two distinctive streams in the literature: theoretical conceptualisation of organisational agility and the media and statistical publications on the small bars and restaurants sector of the Western Australian hospitality sector.

Findings – Identified drivers of organisational agility in the emergent sector for firms with limited resources and agility strategies were formulated and justified.

Theoretical contribution the concept of organisational agility, previously extensively studied in manufacturing, is interpreted in the context of services and, specifically, in conditions of the newly emergent industry.

Managerial implications: the information for managers on agility actions that can be undertaken by small businesses operating at a resource disadvantage compared to their larger counterparts.

Keywords: agility, emergent industry, small businesses, strategy, Western Australia.

Classification: exploratory qualitative study.

## **1. INTRODUCTION**

The idea of agile responses to the fast changes in the external environment to neutralise market turbulence is not a new. Since the early 1990s organisational agility was viewed by scholars and practitioners alike as an effective solution which protects businesses in the manufacturing processes from losses and enable their survival in conditions of unpredictable changes in the operational environment (Vasquez-Bustelo, Avella and Fernandez, 2007). In conditions of uncertainty and an increasing pace of change, the ability businesses to survive depends on their agility in responding to the challenges of unpredictable environment. While the importance of agility is commonly recognised (Arteta and Giachetti 2004; Dove 1999; Yusuf, Sarhadi and Gunasekaran, 1999), there are limited studies which interpret agility in context of specific and, in particular, newly emergent industries. Yes, especially in the newly emergent sectors of the industry services, agility is crucial for vulnerable firms to survive in a still evolving market environment (van Oosterhout, Waarts and Hillegersberg, 2006).

The newly emerging businesses are very fragile and represent an interest for managers and scholars alike to identify success strategies in emergent business sectors. According to the Australian Bureau of Statistics, more than 50% of all established businesses fail in the first four years, for example, out of all existing new businesses established in 2007, just 48.6% were in business in July 2011. Despite such dramatic failure rates, growing industries, such as food service sector, part of the hospitality industry, still offer a lot of room for new entrants. Growth rates in the Australian hospitality industry are predicted to continue at 4.3% per annum through to 2017 (DRGL, 2014). One of the fastest growing sector of this industry is the small bar/restaurant sector which is newly emerging in recent years.

Although, the Australian hospitality industry is fast growing, its players face serious challenges attributed to common characteristics of the emerging sectors which include increasingly complex regulatory environment, sophisticated and educated consumers, labour challenges, skills shortages, low market entry barriers, and intense competition (Adelaja, Nayga Jr, Tank and Schilling 1999; Kozac and Rimmington 1998; Olsen and Zhao 2001; Tsai, Pan and Lee 2011; Parsa, Self, Sydnoe-Busso and Yoon 2011). Specifically, the ongoing changes in the regulatory environment represents the most critical challenge for firms operating in the hospitality industry (Tsai, Pan and Lee 2011). Other challenges are caused by shifts in consumer demographics and consecutive behaviour (Adelaja et al., 1999; Ruhanen, McLennan and Moyle 2012), a lack of financial support and management expertise among current industry players (Ruhanen, McLennan and Moyle 2012).

The dominant players of this industry are small firms who count 85% of the industry firms, and these small firms are highly dependent on long-term debts to support their investments (Tsai Pan and Lee 2011). The industry challenges influence the way of doing business and, particularly, the expected speed of firms' response to the environmental changes and demand organisational agility. The competitive pressure on firms in the small bar/restaurant sector of the Australian hospitality industry to respond and act in an agile matter motivated our study. The purpose of our study is to generate a theoretical framework for analysing an emergent industry sector with limited resources and capture business strategies of its players. The research questions of our study include the following: how does the new sector of the industry emerge? And how do emergent industry players with limited resources and capabilities implement agility strategies? Our study contributes into the literature on organisational agility by developing a theoretical framework for studying agility in an emergent food services industry. The paper is structured as follows: it begins with the literature review on organisational agility resulting in formulation of research questions; next, the method and context of the study are introduced. The paper is concluded by the discussion of findings and their theoretical and practical implications.

## **2. ORGANISATIONAL AGILITY AND ITS DRIVERS**

Agility was first introduced in manufacturing in relation to the vital changes to operations undertaken by businesses in response to increased volatility and significant changes in the operational environment (Vasquez-Bustelo, Avella and Fernandez, 2007). In the early 1990s, organisational agility was considered as a potential solution for firms operating within turbulent markets (Nagel and Dove, 1991). In that context, an agile organisation was defined as "... a manufacturing system with extraordinary capabilities (internal capabilities: hard and soft technologies, human resources, educational management, information) to meet the rapidly changing needs of the marketplace (speed, flexibility, customers, suppliers, infrastructure, responsiveness). A system that shifts quickly (speed and responsiveness) among product models or between product lines (flexibility), ideally in real-time response to customer demands (customer needs and wants)" (Yusuf, Sarhadi and Gunasekaran, 1999: 36). As the manufacturing firms are traditionally characterised by inflexible and repetitive processes, the changes agility brought to operations are easy to be observed and thus well acknowledged in literature (Joroff, Porter and Feinberg, 2003).

The majority of publications emphasised the importance of organisation agility and offered their own interpretation of the concept. As explained by Yusuf, et. al., (1999: 35) "as a mark of the newness of the concept, every publication attempts to define and explain agility". These authors gave one of the relatively early definitions of organisational agility, specifically, as "the successful exploration of competitive bases (speed, flexibility,

innovation, proactivity, quality and profitability) through the integration of reconfigurable resources and best practices in a knowledge-rich environment to provide customer-driven products and services in a fast changing market environment” (Yusuf et. al., 1999: 37). Many investigations into the diverse aspects of organisational agility followed this paper, coupled by clarifying definitions specific to each aspect of an organisation (Jin-Hai, Anderson and Harrison, 2003; Meade and Rogers, 1997). For example, the agility definition of van Oosterhout, Waarts and Hillegersberg (2006: 134) solely concerns distinguishing agility from flexibility: “business agility is being able to swiftly change businesses and business processes beyond the normal level of flexibility to effectively manage unpredictable external and internal changes.” The other definition of agility provides a clarification of context for managing of supply chains and emphasises the importance of costs cutting and timely and proactive response to the customer’s requirements Agarwal, Shanker and Tiwari, 2007). Further understanding of agility was given by scholars who compared agility and flexibility and also investigated how agility can be achieved. The later studies stressed the role of cooperation and integration in the implementation process (Kidd, 1994; Vasquez-Bustelo, Avella and Gernandez, 2007). This divergence in focus and purpose of each organisational agility investigation, coupled by distinct definitions adopted in each paper has largely contributed the multidimensional nature of the concept, consequently leading to a lack of consensus and the confusion surrounding agility.

There are a number of the various interpretations of agility. For example, Dove (2001: 5) viewed agility as “derived from both the physical ability to act (response ability) and the intellectual ability to find appropriate things to act on (knowledge management). Agility is expressed as the ability to manage and apply knowledge effectively, so that an organisation has the potential to thrive in a continuously changing and unpredictable business environment.” Other scholars alternately proposed that “agility is the ability over time to respond quickly and effectively to rapid change and high uncertainty” (Joroff, Porter and Feinberg, 2003: 293). More recent publications argue that survival in turbulent unpredictable environments makes it mandatory for firms to increase the speed of their response if these firms are determined to survive (Chandler McLeod, 2011).

## **2.1. DISTINGUISHING AGILITY FROM FLEXIBILITY AND ADAPTABILITY**

Although flexibility as a business concept was established long before agility, both of them are often used interchangeably in the literature. Both, agility and flexibility are focussed on business survival (Sharifi and Zhang 1999). One of the first definitions of flexibility stresses the ability of firms to respond to changing circumstances (Mandelbaun, 1978) and this ability is also included in most of definitions of agility. However, agility include more aspects than flexibility (Yusuf, Sarhadi and Gunasekaran, 1999). Organisational agility encompasses a wide range of components, rather than attributing agility strategies to flexibility characteristics alone (Baker, 1996; Kidd 1994).

A major divergence between agility and flexibility is observed regarding each concepts focus within the hierarchy of an organisation. Flexibility refers to the top level of an organisation (Baker, 1996), whereas agility emphasises integrative efforts at all levels within an organisation. Indeed, agility goes beyond the ability of flexibility alone to additionally encompass proactive behaviours and a focus on every level within an organisational hierarchy (Huang and Nof 1999; Sharifi and Zhang 1999). Moreover, flexibility is a vital component to the success of an agility strategy, yet is only a single component of the strategy, not its entirety.

Flexibility is used to address responses and the consequent organisational changes that may be largely predetermined by an organisation (Van Oosterhout, Waarts and Hillegersberg, 2006). Further, flexibility refers to the changes in an organisations environment where there is ample available information regarding inputs and outcomes (Van Oosterhout, Waarts and Hillegersberg 2006). However, when changes are unpredictable, flexibility is not enough and agility is required. In this conceptualisation, flexibility is viewed as a single element of agility strategy.

Adaptability is defined as an “inherent ability to adjust or modify” (Katayama and Bennett, 1999). Adaptability is further distinguished from flexibility by Van Oosterhout, Warts and Hillegersberg (2006: 132) who view adaptability as an ability “to swiftly change businesses and business processes beyond the normal levels of flexibility to effectively manage unpredictable external and internal changes”. However, similarly to flexibility, agility only encompasses adaptability as a single component (Yusuf, Sarhadi and Gunasekaran 1999). Each foundational concept, namely, flexibility and adaptability, should be synthesised into a comprehensive approach to strategy, coined organisational agility.

## 2.2. DRIVERS OF ORGANISATIONAL AGILITY

Chance is recognised as the major driver of organisational agility (Sharifi and Zhang, 1999; Zhang and Sharif, 2000; Ganguly, Nilchiani and Farr, 2009). Drivers of agility are linked to changes in consumer preferences, emergence of new technology, changes of the business systems of firms, market changes and shifts in social environments (Sharifi and Zhang, 1999; Yusuf, Sarhadi and Gunasekaran, 1999; Oosterhout, Waarts and Hillegersberg, 2006). Although the drivers of agility concern those forces external to an organisation, internal triggers additionally drive the adoption of agility strategies. Internal triggers are thought to be caused by external factors, or those planned internal changes resulting in unexpected consequences (Joroff, Porter and Feinberg 2003; Van Oosterhout, Waarts and Hillegersberg 2006). Table 1 presents the drivers of organisational agility and the required organisational actions required for agility strategies within organisations. Based on the discussion of the drivers of agility, *the first research question is formulated: what are the drivers of organisational agility can be identified in the context of an emergent industry?*

Table 1

### Drivers of Organisational Agility and Organisational Actions

Drivers of Agility	Organisational Actions	Description
Technological shifts New technology developments	Changes in the process (e.g. booking; supply chain management)	Faults are discovered in employees work due to irrelevant technologies or the physical work of the employees
Jobs skills shift Resource limitations	Update the organisational routines and streamline operations	Continuously learning of employees from the experience resulting in constantly fine-tuning work practices
Emerging consumer markets and changes in consumer preferences	Communication with consumers and knowledge transfer within an organisation	Opportunity identification and perusal; ongoing learning from consumers, competitors and the market
Growing customer expectations	Efficiency programs and new business systems	New ways of thinking are discovered from an examination of processes when pursuing greater efficiency

*Source: Developed by authors based on Joroff, Porter and Feinberg, 2003, and Yusuf, Sarhadi and Gunasekaran, 1999.*

### **2.3. RESOURCES AND CAPABILITIES FACILITATING AGILITY DEVELOPMENT**

Organisational agility requires specific capabilities and resources of firms. Agility must be embedded into every component of the business including organisational structure, culture, technology, leadership and management (Chandler McLeod, 2011). The management of an organisation must promote a culture of agility, emphasising its importance to personnel at every level of the organisation (Vazquez-Bustello, Avella and Fernandez, 2007). In fact, organisational structure, information systems, and the mind sets of those within the organisation are all used together to enable organisations to act agile (Ararwal, Shanker and Tiwari, 2007). Communication is considered as the most vital capability in acting agile. Communication enable organisations to integrate personnel at different hierarchical levels, as well as to integrate organisational structure and culture.

Organisational structure has a significant influence on the organisational ability to act agile (Golan 2006). In particular, a compressed – flat- hierarchical structure allows firms to avoid rigid formal processes that slow the speed of their response to the environmental changes. To ensure agility in the organisation, its employees shall be empowered by decentralised decision making, continuous training and development leading to capacity building with multiple skills and flexibility in accomplishment of tasks (Yusuf, Sarhadi and Gunasekaran, 1999). Investing in employees and instilling them with the capabilities of self-directed work and discipline also allows organisations to use a simple structure, thus, increasing its ability to act agile. This further emphasises the importance of employees as a resource in achieving agility.

Technology is also recognised as a vital resource of organisational agility, especially in the manufacturing industry (Huang and Nof 1999; Yusuf, Sarhadi and Gunasekaran 1999). Technology can be used for a better interpretation of the market and industry knowledge and its communication through the value chain and responsiveness to customers. Although technology presents as a vital resource and facilitator of organisational agility, it may also act as a hindrance in achieving agility when it stiffs innovation and flexibility (van Oosterhout, Waarts and Hillegersberg 2006). For example, if the used an online booking system does not allow to link the order with the inventory or delivery services, there will be miscommunication in the value chain and, as a consequence, slow response to the customers. Based on the analysis of capabilities and resources of organisational agility, the second research question is formulated: *what are the resources and capabilities that enable organisations to act agile in the context of an emergent industry?*

### **3. THE METHOD AND CONTEXT OF THE STUDY**

The qualitative study based on multiple case studies (Eisenhardt, 1989; Hesse-Biber and Leavy, 2011; Yin, 2009) was chosen as the method of this study. The chosen research strategy allowed considering agility, a phenomenon under investigation, in the chosen context. Case studies are deemed appropriate not only when the phenomenon under investigation is relatively new, but also when existing literature surrounding such a phenomenon is conflicting (Bailey, 1994; Eisenhardt, 1989). According to Yin (2009), utilising a case study strategy is the good choice of method in the newly emergent sector of the hospitality industry due to the following reasons: 1) research focus is on contemporary events/phenomena, 2) research questions under investigation are of a how/why nature (how are firms displaying agility in this market/context), and 3) researchers have no control over the events related to the phenomenon. Satisfaction of these requirements cements the validity



of case study utilisation, differentiating from other strategies such as surveys and experiments. The data was gathered via interviews with business owners and managers of the businesses (32 respondents in total) till the data was saturated. The primary data was supported by the industry reports, media and government publications to achieve triangulations and verify the results.

The Western Australian (WA) hospitality industry has been transformed in recent years, especially in newly emergent sector of this industry - the small bar and restaurant sector (Wilson-Chapman 2012). Sector emergence began in 2006 after the de-regulation of WA liquor licensing, introducing the Small Bar License allowing for venues of up to 120 patrons on premises consumption with lessened licensing costs (DRGL, 2011). Simplified licensing and increasing consumer demands resulted in an array of new bars was opened in the Perth Metropolitan market. Such bar/restaurants strive to provide the best services, product offerings, and experience in a relaxed dining atmosphere, at a price that is deemed more affordable than similar offerings in traditional fine dining restaurants.

The development of this sector was supported and facilitated by the City of Perth who saw it as one of the way to improve the city's image (DIISR, 2014; Summer Holidays, 2010). The State Government was also highly supportive of the emerging small bar/restaurant sector, quoting them as "important to the cultural fabric of the city, creating unique and imitate spaces" (City of Perth, 2014). The diverse culture in the small bar/restaurant sector is primarily driven by licensing requirements for venues to propose a distinctive theme for their venue (Bailey, 2012).

#### **4. FINDINGS - LESSONS LEARNT FROM THE SMALL BAR/RESTAURANT SECTOR**

##### **4.1. EMERGENCE OF THE NEW SECTOR AND AGILITY DRIVERS**

The small bar/restaurant sector of Perth has emerged in response to numerous factors, including growth in the state business and, in particular, growth of the small business sector, and the hospitality industry (ABS, 2014). The consumer movement towards high quality food, beverages, and services, has also resulted from an influx of disposable income in the state from the mining boom (Martin, 2012). The population boom of the state has also led to increasing demand for services and infrastructure (Malkin, 2009), again driving growth in the sector, further facilitated by heavy state and city support (City of Perth, 2014). Many of the environmental characteristics and operating challenges of the small bar/restaurant sector appear indicative of those present in the manufacturing industry during the establishment of organisational agility. Thus, it is reasonable to infer the emergence of agility in the hospitality industry as imminent, with the developing small bar/restaurant sector possibly representing initial progress. Such movements in organisational design and offerings of hospitality venues to mirror consumer demand again presents as initial attempts of organisational agility as defined by Dove (2001). The movement of consumer demands and purchasing behaviours in general additionally presents as a major driver of agility. As highlighted by Yusef, Sarhadiand and Gunasekaran (1999) consumer preferences shifting from cheaper mass produced items, to high quality items at a competitive price was one of the main drivers in the emergence of agility in the manufacturing industry.

Small bars and restaurants are characterised by an overriding theme that sets them apart from the majority of traditional industry players, namely the regular restaurants and cafes, instilling an atmosphere of sophistication and trendiness. Skinner, Moss and Parfitt (2005: 115) suggest that there is an "overwhelming bias" for such venues to appeal to the younger demographic who are searching for the newest, fashionable bars in the market. In requiring

small bar/restaurants to maintain an innovative theme for their venue, they are more likely to primarily appeal to this subgroup of the market. The literature (e.g. see Beldona, Moreo and Mundhra, 2010) highlighted the tendency for the younger demographics, specifically those aged 18-33, to be the most likely consumers of the theme eating outlets, additionally suggesting that the new establishments shall target younger demographics in order to increase the chances of their business success. However, our data shows that younger generations are not the sole patrons of these venues. The customers of the sector are those who are seeking a new experience and/or high quality offerings at an affordable price in a relaxed atmosphere. Our respondents demonstrated their awareness that using a novelty factor of themed venues can be dangerous if venues are lacking the appropriate food quality or service. It is evident from our study that most of business owners and managers are committed to support their initial success of their themed venues that rests on the atmosphere and experience provided, by offering consistent quality of the food and service. These shared understanding and undertaken efforts to sustain the initial success of new venues are in line with the recommendations on the success factors in the hospitality industry found in the previous studies (Bagli 1998; Weiss, Feinstein and Dalbor, 2004).

#### **4.2. RESOURCES AND CAPABILITIES FOR ORGANISATIONAL AGILITY**

While employees encompassing the required skills and attitude to work are a vital component to the firm which enable the firm to quickly respond to customers and keep them satisfied, the sector under examination experiences the lack or shortage of skills and heavily relies on temporary employees. Although agility literature emphasises the importance of ongoing and continuous training and development in employees, this area was found lacking in the chosen study context. Moreover, training of employees is highly undesired by the management of firms. Indeed, the management is concerned with potential loss of well-trained employees who are likely to move on in search for better payments in the traditional restaurants and bars.

#### **4.3. AGILITY STRATEGIES IN THE SMALL BAR/RESTAURANT SECTOR**

Our data allowed to develop a set of feasible agility strategies that can be implemented by the firms in the sector under examination. The theoretical value of these strategies is in the contextualisation of agility in the service industry and small firms with limited resources as opposite to the resources-rich large manufacturing firms used as the most common context of the previous studies on organisational agility. The agility strategies are based on the current successful actions of the respondents which enabled their agile response to the consumers, as well as the lack of such actions and, as a consequence, missed opportunities. Both undertaken actions and missed opportunities were highlighted by our respondents. The summary of agility strategies and their reasoning are presented in Table 2.

Table 2

**Agility strategies in the small bar/restaurant sector**

Agility strategies	Current Implementation/Future recommendations	Reasoning
Social media systematic utilisation	Social media are recognised and utilised to some degree There is no consistent use of social media/ no strategy on incorporating social media into the marketing campaign	Social media shall be used as a free marketing tool and a method of direct communication with consumers Social media shall be used for increasing the visibility of venues as well as the learning tool about the market Social media shall be used to be abreast with the changing trends in the market
Cooperation and interfirm relationships building among small bars/restaurants	All venues within the sector have strong relations with one another Strategize partnerships in the sector New entrants to the sector shall affiliate themselves with existing sector players	The information and advice gained through relationships is invaluable, especially due to the developmental nature of the sector Limited resources and small size of venues require pooling resources together Skills shortage can be overtaken by sharing the key resources and capabilities when required
Training and development of staff	Train staff and sharpen consumer service Polish product and service offerings	Regular training schedules should be utilised for training in not only new product offerings, but maintaining but customer service skills, management skills, and general hospitality skill. Use both cost-efficient in-house training and the dissemination of knowledge from senior to junior staff as well as the cross training in collaboration with competitors in the sector These interactions additionally contribute to strategic relationships between venues
Consumer relations	Maintain consumer relations Support community groups Build relationships with corporate clientele	Venues should constantly develop relations with patrons, questioning their desires and demands on the venue Greater market alignment of operations and developing loyalty of consumers are based on consumer relations Insights gained through interactions are vital considering the limited budgets of venues
Supplier relations	Utilise good relations with suppliers in the systematic way	Knowledge of suppliers is priceless Orders may be consolidated by a number of competitors in the sector to create volume discounts Strong trustworthy relationships allow for greater communication, thus, suppliers will let venues know in advance if stock is unavailable or is special stock suited to them has become available Changes to offerings are then made in a timely fashion. Additional stock requests also have a greater chance of being accepted such as sourcing something not usually stocked by the company.

**5. DISCUSSION AND CONCLUSIONS**

The small bar/restaurant sector represents an interesting case for learning lessons in the development of organisational capabilities to act agile. Our data indicates that organisations follow an outside-in strategy perspective and respond to the industry and consumer changes. Although an outside-in strategy perspective (Days, 1990; De Wit and Meyer, 2004) has not been related to organisational agility within the academic literature, there are similarities between the two, as demonstrated by venues within the small bar/restaurant sector. Both concepts are characterised by a firm's orientation on a consumer, market knowledge, and the ongoing adaption to changes within the market and consumers demand (Dove, 1999; Joroff, Porter and Feinberg, 2003; Tanaka, 2012). Thus, consumer demand is driving the focus of organisations, their offerings and target market (De Wit and Meyer 2004). Customer orientation and market responsiveness were consistent themes in all interviews. Similarly to other small business firms, our respondents revealed their dissatisfaction in the current

hospitality options in Perth as the major driver to become a business owner. The initial foundations for the business were made in consultation with current and future patrons. The respondents recognised a niche in the market, took steps to satisfy that market, and ensured they were aligned with demands.

### **5.1. LIMITATIONS OF THE STUDY AND AVENUES FOR FUTURE RESEARCH**

This study represents a snap shot of the emergence of the new sector in the selected geographic area of the city of Perth, thus, results have limited generalisability due to the restricted nature of the sample utilised. However, as venues within the sector demonstrate high levels, significant divergences from the sample are unlikely. Future studies shall be implemented using large samples in different areas of the state as the sector continues to grow. Special studies on social entrepreneurship and partnerships in the small bar and restaurants sectors and on the growing regulation of this sector are also advisable.

### **5.2. THEORETICAL IMPLICATIONS**

This paper has interpreted the concept of organisational agility within the emergent service industry with limited resources, namely the small bar/restaurant sector. This was a movement from the extant studies which were focused on the manufacturing industry dominated by large firms with well-established resources. Additional characteristics of agility as well as the challenges of firms to act agile were identified within the context under examination. As result, the following agility strategies were identified: ongoing market assessment via building and maintaining mutually beneficial relationships with all industry players; consolidation of resources via comprehensive supplier management; cost savings via focussed market differentiation as opposite to working across the broader market offering; and continuous development of firms capabilities via staff development programs. These agility strategies have been identified in the context of an emergent industry and can be recommended to all firms striving to survive in similar conditions of highly differentiated services and operating with limited resources and capabilities.

### **5.3. MANAGERIAL IMPLICATIONS**

This paper inform managers on the specific context and its agility drivers. The paper also summarise the emergence pattern of the new sector within the traditional hospitality industry. The driving forces behind the emergence of the small bar/restaurant sector have also been identified, including those operating challenges and restrictions shaping venues within the sector. The timing of the study cannot be more fortunate: since the resource boom in Western Australia has slowed down in the recent year, the practitioners and policy makers alike question: where to after the resource boom is over and what are the alternatives for the state economy? The current study she some light at such an alternative. Finally, the feasible agility strategies developed for use in the sector provide practical and market specific solutions for venues within the sector. Again, increasing the development and growth of the sector will not only boosts employment rates, but contribute to the development of culture within the City of Perth, as desired by local government (City of Perth, 2014). Practical contributions are validated by the Small Bar Association of Western Australia that contacted the researchers to obtain results of this study.

This paper explored agility drivers and agility capabilities of firms in the emergent sector of small bar/restaurant in the hospitality industry in Perth, capital of Western Australia.

The nature of this small and vulnerable sector with limited resources of firms and strong competitive pressure from the traditional players of the hospitality industry makes agility a crucial factor of firms' survival. The strongest drivers of agility in this sector are changes in consumers' preferences and technological changes in the process of providing services (starting from an online booking and finishing by sharing consumer feedback on received service through social media). The most critical actions that have to be undertaken by the firms in the sector to be able to act agile are ongoing learning from the market, consumers and competitors and collaboration with competitors and consumers in co-creation of consumer value.

## REFERENCES

1. ABS (Australian Bureau of Statistics), 2014. <http://www.abs.gov.au/> retrieved on October 7, 2015.
2. Adelaja, A., R.M. Nayga, Jr., Tank, K. and Schilling, B. (1999). "Challenges Facing the Foodservice Industry". *Journal of Restaurant and Food Service Marketing*, 3 (3): 123-128.
3. Agarwal, A., Shankar, R., Tiwari, M. K. (2007). "Modelling agility of supply chain", *Industrial Marketing Management*, 36 (4): 443-457.
4. Arteta, B. M. and Giachetti, R. E. (2004). "A measure of agility as the complexity of the enterprise system", *Robotics and Computer-Integrated Manufacturing*, 20 (6): 495-503.
5. Bagli, C. V. (1998). "Novelty gone, theme restaurants are tumbling". *The New York Times*. December 27. <http://www.nytimes.com/1998/12/27/nyregion/novelty-gone-theme-restaurants-are-tumbling.html?pagewanted=all&src=pm>
6. Bailey, K. D. 1994. *Methods of social research*. 4th ed. New York: The Free Press.
7. Bailey, M. (2012). "Feel the heartbeat of Perth's small bars". *The West Australian*, January 21.
8. Baker, J. 1996. "Agility and flexibility: what's the difference". Working paper, *Cranfield University*.
9. Barker, G., Hogan, D., Mills, G., Matthew, J. and Shenton, J. (2012). "WA in the works". *Scoop*. Autumn.
10. Barker, G., Hogan, D., Mills, G., Matthew, J. and Shenton, J. (2012). "Colin Barnett; the importance of making change happen". *Scoop*. Autumn.
11. Beldona, S., Moreo, A. P. and Mundhra, G. D. (2010) "The role of involvement and variety-seeking in eating out behaviors", *International Journal of Contemporary Hospitality Management*, 22 (3), pp. 433 – 444.
12. Chandler McLeod, 2014 Organisational agility: navigating the maze. *Workplace barometer report*. <https://www.chandlermacleod.com/>.
13. City of Perth, 2014 <http://www.perth.wa.gov.au/>. Retrieved on 17 November, 2014.
14. Day, G. S. (1990). *Market driven strategy, processes for creating value*. New York: The Free Press.
15. De Wit, B. and Meyer, R. (2004). *Strategy Process, Content, Context; An International perspective*. 3<sup>rd</sup> ed. London: Thompson.
16. DIISR (Department of Innovation, industry, Science and Research). (2014). Key statistics. Australian small business. Canberra: A. C. T. Australian Government.
17. DRGL (Department of Racing, Gaming and Liquor). (2014). "Hotel/hotel restricted/tavern/tavern restricted/small bar". <http://www.rgl.wa.gov.au/Default.aspx?NodeId=120>.
18. Dove, R. (1999). "Knowledge management, response agility, and the agile enterprise". *Journal of Knowledge Management*, 3 (1): 18-35.
19. Eisenhardt, 1989; Eisenhardt, Kathleen. 1989. "Building theories from case study research. *Academy of Management Review*. 14(4): 532-550.
20. Ganguly, A., Nilchiani, R. and Farr, J. V. (2009). "Evaluating agility in corporate enterprises". *International Journal of Production Economics*, 118: 410-423.
21. Golan, B. (2006). "Achieving growth and responsiveness: process management and market orientation for small firms". *Journal of Small Business Management*, 44 (3): 369-385.
22. Hesse-Biber, S. N. and Leavy, P. (2011). *The practice of qualitative research*. 2nd ed. Los Angeles: SAGE Publications.
23. Huang, C-Y. and Nof, S. Y. (1999). Enterprise agility: a view from the PRISM lab". *International Journal of Agile Management*, 1 (1): 51-59.
24. Jin-Hai, L., Anderson, A. R. and Harrison, R. T. (2003). "The evolution of agile manufacturing". *Business Process Management Journal*, 9 (2): 170-189.
25. Johnston, W. J., Leach, M. P. and Liu, A. H. (1999). "Theory testing using case studies in business-to-business research". *International marketing Management*. 28(3): 201-213.

26. Joroff, M. L., Porter, W. L. and Feinberg, B. (2003). "The agile workplace", *Journal of Corporate Real Estate*, 5 (4): 293-311.
27. Katayama, H. and Bennett, D. (1999). "Agility, adaptability and Leaneness: a Comparison of Concepts and a Study of Practice", *International Journal of Production Economics*, 60 (61): 43-51.
28. Kidd, P. (1994). *Agile manufacturing: forgiving new frontier*. Reading: Addison-Wesley.
29. Kozac, M. and Rimmington, M. (1998). "Benchmarking: Destination attractiveness and small hospitality business performance". *International Journal of contemporary Hospitality Management*. 10 (5): 184-188.
30. Malkin, B. (2009). "Perth poised for new economic boom: Western Australia mining region "outran" global recession". *Edmonton Journal*, October 27.
31. Mandelbaun, M. (1978). "Flexibility in decision making: an exploration and unification". PhD Dissertation, University of Toronto. <http://www.sciencedirect.com/science/article/pii/0377221790903108>
32. Martin, P. (2012). "Mining boom 'felt across country". *The Age*, February, 17.
33. Meade, L. M. and Rogers, K. L. (Jamie) (1997). "Enhancing a business process for agility, innovation and technology – the key to global leadership". Paper presented at the *International Conference on Management and Technology*, Portland, July, 27-31.
34. Nagel, R. and Dove, R. (1991). *21<sup>st</sup> Century manufacturing enterprise strategy: an industrial-led view*. Volume 1. Bethlehem: Laccoca Institute LeHigh University.
35. Olsen, M. D. and Zhao, J. (2001). "The restaurant revolution – growth, change and strategy in the international foodservice industry". *Journal of Restaurant and Foodservice Marketing*. 4 (3): 1 -34.
36. Parsa, H. G., Self, J. T., Sydnoe-Busso, S. and Yoon, H. J. (2011). "Why restaurants fail? Prt II – the impact of affiliation, location and size on restaurant failures: results from the survival analysis".
37. Ruhanen, L. M., Mclennan, C.-L. J. and Moyle, B. D. (2012). "Strategic Issues in the Australian Tourism industry: a 10 year analysis of national strategies". *Asia-Pacific Journal of Tourism Research*.
38. Sharifi, H. and Zhang, Z. (1999). "A methodology for achieving agility in manufacturing: an introduction". *International Journal of Production Economics*. 62 (1-2): 7-22.
39. Silverman, David. 2000. *Doing qualitative research, a practical handbook*. London: SAGE Publications Ltd.
40. Skinner, H., Moss, G. and Parfitt, S. (2005). Night clubs and bars: What do customers really want? *International Journal of Hospitality Management*. 17 (2): 114-124.
41. *Summer Holidays – the Emerging small bar culture in Perth*, 2010. <http://indolentdandy.net/fitzroyalty/2010/01/10/summer-holidays-the-emergng-small-bar-culture-in-perth>.
42. Tsai, H., Pan, S. and Lee, J. (2011). Recent research in hospitality financial management. *International Journal of Hospitality Management*, 23 (7): 941-971.
43. Van Oosterhout, M., Waarts, E. and Hillegersberg, J. van. (2006). "Change factors requiring agility and implications for IT". *European Journal of Information Systems*, 15: 132-145.
44. Vasquez-Bustelo, D., Avella, L. and Fernandez, E. (2007). "Agility drivers, anablers and outcomes: Empirical test of an integrated agile manufacturing model". *International Journal of Operations and Product Management*, 27 (12): 1303-1332.
45. Weiss, R., Feinstein, A. H. and Dalbor, M. (2004). "Customer satisfaction of theme restaurant attributes and their influence on return intent". *Journal of Foodservice Business Research*. 7 (1): 23-41.
46. Wilson-Chapman, A. (2012). "Liquor license reform vow to boost growth". *Perth Now*, March 08. <http://www.perthnow.com.au/business/local-business/liquor-license-reform-vow-to-boost-growth/story-e6frg2s3-1226293979830>.
47. Yin, 2009 Yin, Robert K. 2003. *Case study research design and methods*. 3rd ed. Thousand Oaks, California: SAGE Publications.
48. Yusuf, Y. Y., Sarhadi, M. and Gunasekaran, A. (1999). "Agile manufacturing: the drivers, concepts and attributes". *International Journal of Production Economics*, 62 (1-2): 33-43.
49. Zhang, Z. and Sharif, H. (2000). "A methodology for achieving agility in manufacturing organisations". *International Journal of Operations and Production Economics*, 20 (4): 496- 513. ACING GAMING AND LIQUOR

# STRATEGIC INNOVATION APPLICATION IN CREATIVE INDUSTRIES IN LATVIA

**Rumiyya Muradli**

*MBA, BA School of Business and Finance, Riga, Latvia.*

*e-mail: [rumiyya.muradli@outlook.com](mailto:rumiyya.muradli@outlook.com)*

**Tatjana Volkova**

*Professor, BA School of Business and Finance, Riga, Latvia*

*e-mail: [tatjana.volkova@ba.lv](mailto:tatjana.volkova@ba.lv)*

## **Abstract**

The purpose of the research is to identify if the companies operating in the Creative industries (CI) in Latvia are aware of the importance of Strategic innovations (SI) and the role of SI in contributing to a company's sustainability and, consequently, its competitiveness.

Design/methodology/approach - The chosen research method is the quantitative one that will enable to measure the hypothesis basing on statistical data. The survey of the research work sticks to a questionnaire, which contains 19 questions. The survey has been sent out to around randomly selected 500 creative industries companies, whereby the number of respondents comprises 58.

Findings - In order to successfully implement directions towards SI introduction and further development in CI companies, a focus could be set on the leadership activities, HRM team, and also professional associations. These three factors are able to crucially impact on the SI development in Latvia.

Research limitations/implications - The necessity of more advanced and comprehensive application of SI in CI is evident. Therefore, it would be important to extendedly provide further research evidence on the essence and positive effects of SI on business performance in CI.

Practical implications - For the implementation of SI a leadership team should distinctively communicate the company's commitment to the particular innovation and underline the logic behind it. To enable that, leadership should illustrate clear and adequate signals concerning the significance of the activities and eradicate unnecessary ones.

Originality/value - The conducted research enabled to define the level of SI application within the framework of CI in Latvia.

Keywords: creative industries, strategic innovation, sustainability, leadership, drivers

## **1. INTRODUCTION**

Nowadays, with the evolving of new technologies, market environments are changing and altering at a quick pace challenging, thus, enterprises. Many enterprises are finding themselves in highly inconstant markets and face the need of re-conceptualizing their market strategies. While markets become instable, the focus of businesses is put more and more on quality, price, delivery, and innovation as well (Drejer, 2006). The latter are faced vague industrial conditions, which stimulate them towards finding the most optimal ways out in order to survive in a complicated climate.

Striving to successfully solve the emerging issues, enterprises realize the urgent need in resolute and radical changes in their operations as well as the ability to preserve their sustainability. Dynamically reinventing strategies and business models in compliance with changing circumstances, i.e. applying strategic innovations, is a key factor for achieving the desired business sustainability.

Strategic innovation is "...a fundamental different way of competing in an industry by breaking the rules of the game and thinking of new ways to compete" (Sniukas, 2007).

The problem presented in the Paper is the emerged need for CI enterprises to turn to strategic innovations for gaining business sustainability and thus contributing to economy development.

## 2. STRATEGIC INNOVATIONS ESSENCE AND CHARACTERISTICS

Although there is no common understanding of innovation itself among researchers, the authors of this article share the view of Preda (2013) on innovation that it implies the creation of new ideas aimed at generating value both for firms and clients depending on the presence of embedded novelties and added values in products, services, procedures, marketing or organizational issues (Preda, 2013). There are different types of innovation and among them SI is becoming more recognized as a tool to ensure business viability in the long run.

SI is an approach that guides enterprises for surviving in these vulnerable markets, thus, helping to maintain or achieve new competitive advantages. According to B.B. Schlegelmilch, A. Diamantopoulos & P. Kreuz SI is considered as one of the most frequently named terms used for the application of innovation to business strategies (Schlegelmilch et al., 2010).

J. Weerawardena's point of view is based on the idea that SI is corresponding to innovation in the process of defining and carrying out the strategy of a company. It is considered to unfold the undiscovered with the purpose of acquiring new knowledge, new markets as well as spheres for competition (Preda, 2013). Petraite defines SI as the formation of growth strategies, business models, categories of new products or services, which in turn, provoke important values for clients and enterprises. So, being a holistic systematic approach, SI concentrates on producing innovations that are distinguished as periodical and revolutionary. As to Petraite, innovations turn "strategic" under the conditions of deliberate recurring process, which evolves essential difference in the value received by customers, partners and the firm itself. The whole process involves industry and market analysis, customer understanding, and strategic adaptability (Petraite, 2010).

Drejer (2006) expresses another point of view in regards to SI stating that SI is equivalent to the capability of generating and reviving the business idea and enterprise concept through altering the enterprise's market as well as its competencies and business system. From this it follows, that the main focus of SI is the development of an enterprise. So put differently, SI refers to introducing novelties to the strategy itself. The concept of SI deals with issues like selecting of optimal customers, outlining of customer value and forming of value chain. The two latter can be reached by means of recognizing, estimating and applying facilities as well as originating new ideas that derive from gathering and distributing of market information. As a consequence, it is evident that SI can bring to three possible outcomes, which are as follows:

- new business models that involve a new value chain structure;
- new markets achieved either through building new ones or restructuring present ones;
- added value for enterprises as well as clients.

SI as a concept and the thinking beyond it rests upon three pillars. The first one involves the necessity for managers to recognize the strategy for the present time as well as the strategy for the future with the purpose of remaining successful in the long run. The essence of the second pillar grounds on the theory underlining that innovation and effectiveness are to be treated differently in terms of organization types in order to achieve success since creative thinking and conventional analytical thinking in principle vary from each other. The final pillar testifies that the competition, nowadays, is focused more on business models changing competitive conditions than on product-markets or technology (Drejer, 2006).



### 3. DRIVERS FOR ENSURING STRATEGIC INNOVATIONS IN BUSINESS

Existing literature provides various methods of fostering SI process. Schlegelmilch et al. are among other researchers who determined major elements of this process, and namely the drivers. In their work “Strategic innovation: the construct, its drivers and its strategic outcomes” Schlegelmilch et al. state that SI has four main driving forces: culture, process, people, and resources.

*Culture* is the first component in the chain of SI drivers, the creation of which involves a person’s opinion, interpersonal driving force and regulations within a society that define a people’s community in a specific period of time and place. Contributing to a separately taken person’s culture, an organizational culture supplements the performance of a company through values, symbols, beliefs, myths, language, etc. In other words, culture thoroughly impacts values, beliefs, and assumptions within a company, and namely those of the staff, which, in turn, are reflected in the behavioural model of employees along with the manner of interaction employees practice within and outside the firm. All this, as a result, determines the level of innovation capacity the firm possesses.

*People* are also regarded as one of the main SI drivers due to the fact that the way employees of a firm think and act defines the firm’s innovation potential. The driver People is being regarded as people working inside the firm, i.e. managers and staff, together with those outside it, i.e. clients, associates, and industry leaders. Possessing such a twofold function, people present a significant factor in generating SI.

*Process* is the next driver of SI that deals with enhancing strategy elaboration process. The traditional strategy elaboration process is related to a well-planned, analytical procedure. Subsequently, strategic planning undergoes critiques for supporting reductionism due to proposing effortless methods, sticking to excess monitoring, and adhering mainly to historical precedents. As opposed to it, SI process is aimed at creative discovery as it is development and future oriented. Moreover, the process of SI strives to fuse new variations and exceed current business frontiers. The profitable outcome of its implementation may bring to unveiling of unchallenged competitive arena and also to revealing and following of development chances overseen by traditional processes.

The last driver of SI suggested by Schlegelmilch et al. is *resources* that basing on the traditional logic is to be employed with all its available assets and capabilities by an enterprise. In case company-related resources are uncommon, valuable, unique, and possess no adequate replacements, business implementation of high level is to be forecasted. Pursuant to this resource-based perspective, enterprises perceive business possibilities proceeding from their actual assets and capabilities questioning, thus, “Given what we have, what is the best we can do?” Hence, the main issue is bringing inside systems and capabilities in compliance with outside possibilities. Put differently, concentrating on actual capacities and achieving a certain level of development, the company stops utilizing new ideas that could contribute to its prosperity. So, this is the point where strategic innovators stop the pattern of combining internal capacities with external possibilities by questioning “What would we do if we were starting anew?” (Schlegelmilch et al., 2010).

As to J.C. Prabhu, R.K. Chandy, and M.E. Ellis, efficient innovations depend on companies’ wide and profound knowledge base. A company possessing such extended *knowledge* profits in accumulating new ideas from a range of fields and markets (Leal-Rodriguez et al., 2013).

Taking into account available researches, Prince et al. underlined the significance of *dialogue* as an accelerator of SI especially in the reshaping of intellectual patterns. Dialogue makes it possible to thoroughly analyze present intellectual patterns and opportunities for

shaping new ones giving simultaneously impulse to important alterations required for sustainable SI. (Prince et al., 2014).

Markides and Anderson state that in spite of the presence of several driving factors positively impacting the conduction of a cardinal new strategy, *information and communication technology* (ICT) can be regarded as a crucial one in the successful achievements of a majority of strategic innovators nowadays. SI by means of ICT allows strategic innovators to expand their businesses rapidly. Subsequently, this expansion causes value chain shaping, which varies from industry standards and, in turn, defends innovators from rival invasions (Markides and Anderson, 2006).

Among other drivers of SI, Tse proposed a rather different view on driving forces of SI, and namely, *paradoxical approach*. The term paradox reflects a state of things when at least two components (for instance, ideas, demands, offers, views, feelings) although being interdependent, contradict each other at the same time, what increases with time. Aiming at SI, companies can gain organizational success through prompting contradictions and, thus, challenging actual prevailing mentalities, ordinary functions, habits, in other words, through identifying and addressing paradoxes (Tse, 2013).

#### 4. CREATIVE INDUSTRIES CHARACTERISTICS IN LATVIA

Latvia is sticking to the CI classification of the UK DCMS models, i.e. it involves industries like advertising, architecture, art and antique market, crafts, design, fashion, film and video, music, performing arts, publishing, software, television and radio, video and computer games. Like other EU Member States, Latvia made efforts for getting closer to the British pattern when taking the first measures in CI establishment. It should be highlighted that the British Council, French Embassy, Danish Cultural Institute, Goethe-Institute, Nordic Council of Ministers, and other Nordic Council of Ministers, contributed significantly in the process of knowledge sharing and rise of local competence level in the matters of CI in Latvia (Estonian Ministry of Culture, 2010).

In Latvia, the intensive conduction of policy-planning process involving CI has been launched around 2005 (Estonian Ministry of Culture, 2010). The significance for CI elaboration in Latvia was first presented in the Guidelines for the State Cultural Policy of Latvia for 2006 – 2015. The Latvian Ministry of Culture drew in a broad range of experts both local and international along with governmental, private and municipal institutions. Following the introduction of CI matters in the national cultural policy guidelines, the implication of creative industry topics in all major policy planning documents in Latvia has been promoted by the Ministry of Culture. The documents may vary from the National Development Plan 2007–2013 to the National Development Plan 2014–2020, the National Lisbon Programme 2005–2008 and the National Strategic Reference Framework document 2007–2013 (Compendium of Cultural Policies and Trends in Europe, 2014).

The key reasons for the introduction of issues concerning CI policy imply a broadened version of general cultural policy issues:

- developing CI has a connection with matters of national identity, language, specific export products as well as the perspective for marketing Latvia on the international arena;
- due to the fact that the Latvian Ministry of Culture is dealing with issues covering education sector of cultural and CI, the latter are interrelated with matters regarding creative people's conditions, i.e. their social security, mobility of people from the cultural sphere as well as maintaining the strategic linkage between cultural and educational sectors;
- perception of CI as those closely linked to creating markets and the consumption of cultural products and services;

• comprehension of interrelation of CI elaboration with the consequent enhancement of cultural administration (strategic management related to the performance, administrator trainings, setting up sound and sustainable research systems, and so on). (Estonian Ministry of Culture, 2010)

Besides, the Cultural Policy Guidelines of 2006–2015 highlighted the interdependence between creativity and economy: “Creativity nurtured by culture and the arts in conjunction with knowledge is now the main resource for economic growth. Creative industries as a new sector of the economy ensure utilising this resource in the creation of goods and services with high added value.” (Estonian Ministry of Culture, 2010)

It can be stated that CI in Latvia concentrate more on the internal consumption and micro-business, to be precise on a small amount of employees, turnover, preservation of current market positions, rather than on business development, that means on the productivity and turnover growth (Association of persons Baltijas Konsultācijas Ltd and Konsorts Ltd, 2013).

Worth mentioning is the share of the economic input of the CI since 2002, which has been estimated and highlighted in the research conducted by the World Intellectual Property Organization (WIPO). WIPO studies ground on the level of dependence of CI industries on copyright material. Furthermore, it sets up a range of macroeconomic indicators and suggests research norms and methods. Using best international practices, the guidelines of WIPO were established and carried out in more than 45 states. The study points out the fact that CI significantly contribute to the national GDP as well as employment. What concerns the national GDP, it differs from country to country and in three quarters of surveyed countries it ranges between 4 and 6.5. per cent reaching an average of 5.20 per cent as of 2013. An above-average share of GDP owed to CI has been presented in states undergoing robust economic growth. Latvia’s GDP, in particular, profited with around 5 per cent through the CI (Creative Economy Report, 2013).

As regards the national employment, the contribution of CI makes out an average of 5.36 per cent, whereas almost three quarters of the surveyed countries position themselves between 4 and 7 per cent input to national employment. Countries that enjoy an above-average share of CI in GDP present an above-average share of employment as well. Latvia exceeding the average of 5.36 per cent achieves a considerable level of CI contribution to the national employment (Creative Economy Report, 2013).

## **5. EVALUATION OF APPLICATION OF STRATEGIC INNOVATION IN CREATIVE INDUSTRIES**

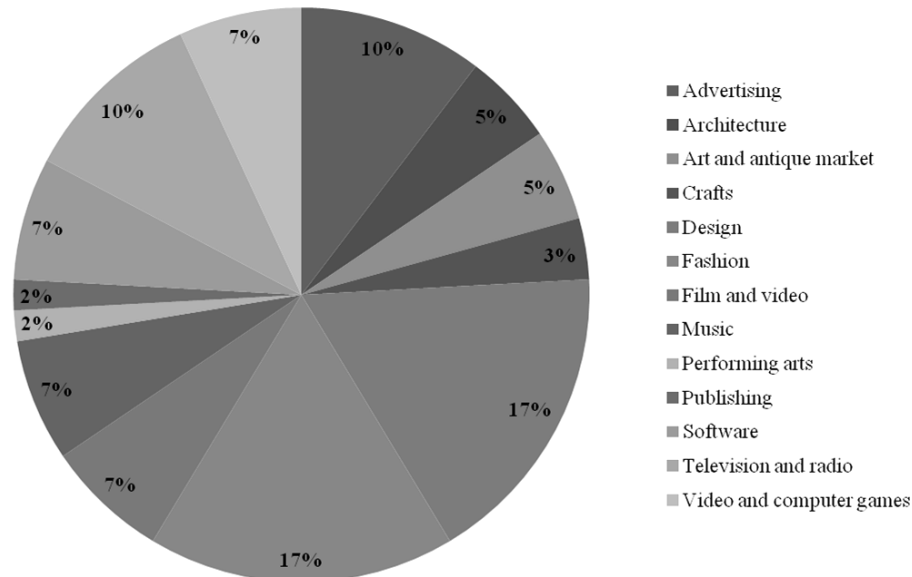
The research of this paper is covering the field of CI and deals with the role of SIs in ensuring business sustainability in this area. The hypothesis that arises from this topic is as follows: “The application of strategic innovations has a strong influence on ensuring business sustainability in creative industries in Latvia”. The chosen research method is the quantitative one and will enable to measure the hypothesis, which is a scientifically accurate statement, used to define the relationship between two variables (Zikmund et al., 2013). The variables, which derive from the hypothesis involve “Application of strategic innovations”, which is considered as an independent variable, and “Business sustainability” referring to a dependent variable. The application of SIs in the given research work is a process that happens first and can be related to the “cause” of further changes. These changes consequently form the outcome and, namely, business sustainability. Being a dependent variable, business sustainability can be measured during the research. All in all, the initial assumption (hypothesis) of the research work is being checked during the research course and, as a result,

it can be either approved or refuted. In other words, it will pursue its purpose to find a reliable answer to the assumption.

The proper tool for exact evaluation of application of SIs in CI in Latvia would be a thoroughly composed questionnaire containing 19 questions. Conducting a questioning implies a written form of the survey. Similar to interviews, questionnaires involve a set of well-defined written questions that are offered to the respondent. Consequently, the final questionnaire was meant to be sent out to managers from the CI. The purpose of the whole study is to identify if the companies in Latvia operating in the CI are aware of the importance of SIs and the way they contribute to a company's sustainability and, consequently, its success.

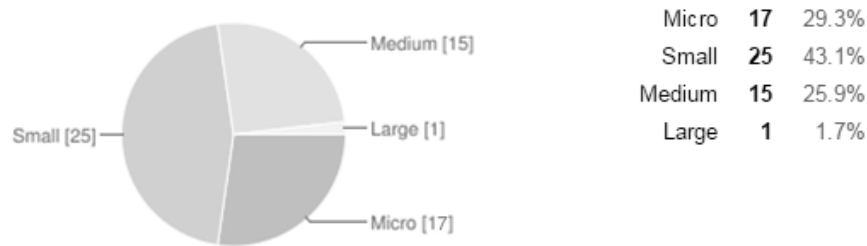
Conducting this survey, it would be possible to define how many firms apply SIs. So, the survey is aimed at shedding light on and proving the fact that innovation should be an integral part of business strategies since it is being assumed that SIs contribute to a company's constant growth and, consequently, are the driving force for sustainability.

First of all, it should be noted that during the conduction of the survey some of the managers refused to take part in it supposing that their companies do not have any relation to CI. Despite being proportionally just a small sample, the survey leads to the assumption that the deep understanding of the notion of CI did not gain enough expansion in Latvia.



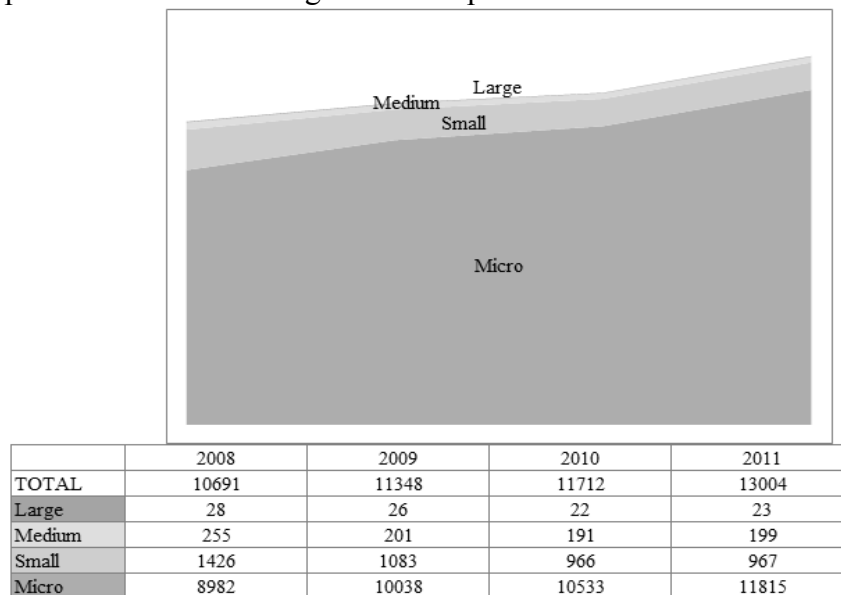
**Figure 1.** Type and percentage of industries and responses respectively (percentage)

The biggest number of responses came from the design and fashion industries comprising 17%, being followed by the advertising (10%), television and radio (10%), music (7%), software (7%), video and computer games (7%), film and video (7%), architecture (5%), art and antique market (5%), crafts (3%), performing arts (2%), and publishing (2%) industries. More than half of the responses is referred to the female gender and related to the nominal measurement level, accordingly.



**Figure 2.** Types of companies according to their size (number and percentage)

As it can be seen in the figure 2. which illustrates the division of the surveyed managers in regards to the type of their company size, 17 out of 58 companies refer to micro ones, thus, making up 29,3%, and 25 out of 58 are considered as small companies reaching 43,1%. As of the survey, it is evident that micro and small companies, relating to more than half of the responses, dominate in the market. With respect to the large and medium ones, they comprise 1,7 and 25,9 percent, respectively, forming, hence, the smaller sectors among the CI in Latvia. Such kind of information has also been provided by Baltijas Konsultācijas Ltd and Konsorts Ltd in their 2012 Report “The performance of the creative industries sector of Latvia and preconditions for its targeted development”.



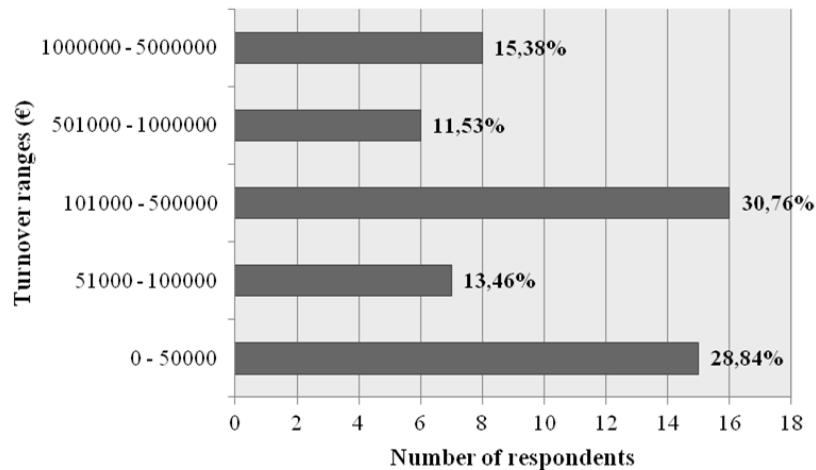
**Figure 3.** Economically active statistical units\* from 2008-2011 by company size classes in Latvia (number)

*Source: Baltijas Konsultācijas and Konsorts (2013)*

As it can be seen in the picture above, as of 2011, Latvia’s CI and related fields are made up mostly by micro companies, to be precise, about 90% of enterprises relate to the category of micro enterprises, which implies 9 or less workers or annual turnover equal to or less than 1.4. million LVL or balance sheet total equal to or less than 1.4. million LVL. (Baltijas Konsultācijas and Konsorts, 2013) This information matches with the data arising from the survey conducted by author, thus, supplementing its validity.

As depicted in figure 3., 16 out of 52 managers (52 out of 58 indicated the company’s turnover) making out 30,76% of total respondents number relate to the companies generating a total turnover ranged between 101000 – 500000 EUR. According to the survey results, a comparatively lesser amount of companies, i.e. 28,84%, reach a turnover in the range of 0 –

50000 EUR. Moreover, only 26,91% of the companies achieve an annual turnover between 501000 and 5000000 EUR. Consequently, the average annual turnover of the surveyed companies is 750,538 EUR.



**Figure 4.** Percentage of respondents with respect to companies' annual turnover (percentage)

The questionnaire also included the multiple choice question “Do you agree that strategic innovation is...?” with the purpose to define the level of awareness companies' managers have with regards to SI. There have been provided four answer options to choose between, two of which were true (1 and 3):

1. a fundamentally different way of competing in an industry by breaking the rules of the game and thinking of new ways to compete;
2. process of creating strategy of a company, whose main activity is the implementation of innovation;
3. the ability to dynamically reinvent business models and strategies as circumstances change;
4. strategized innovation planning reflected in innovative behaviours of the firm in its current context or markets and industries.

With the choice of the first and third options, 53,4% and 24,1% of managers respectively defined SI correctly. This gives ground to imply that the overwhelming majority (77,5%) of surveyed managers are aware of the essence of SI.

Following that, 77,6% of the managers confirmed their implementation of SI, whereby 22,4% stated that their companies do not pay much attention to SI.

As regards the drivers of SI that have already been mentioned before, the managers have been given the opportunity to choose which of the listed drivers in their opinion boosts SI most. Gaining 46,6% and leaving, thus, other drivers far behind, the driver People is considered by the managers as one greatly fostering SI. Although the driver Dialogue/communication has not been chosen at all, nevertheless, this cannot indicate its unimportance. This is because dialogue being considered as a means of communication forms a part of the People driver, hence, should not be fully excluded.

Table 1

**Predominance of the drivers according to manager's point of view**

Drivers of SI	Number of people	Percentage
Organizational culture	7	12.1%
Resources (e.g. assets, capabilities)	3	5.2%
People (inside and outside the company)	27	46.6%
Strategy development processes	4	6.9%
Knowledge	11	19%
Dialogue/communication	0	0%
Information and communication technology	4	6.9%
Paradoxical logic	1	1.7%
Other	1	1.7%

In practice, there is an inconsiderable amount of managers, who articulate what the key drivers of SI are and some of them maybe even do not fully realize them. This leads to the assumption that respondents could answer this question relying mostly on their intuition rather on precise information.

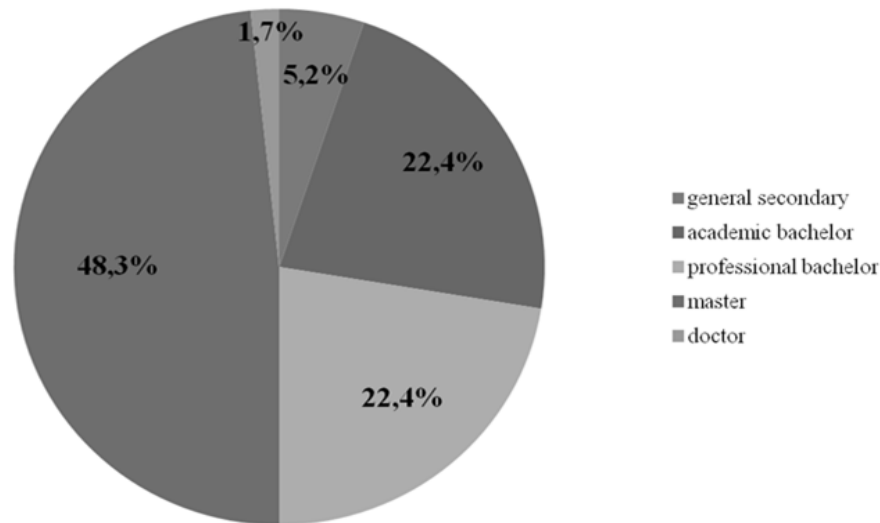
Moreover, basing on the results of the survey in average the companies possess 18 employees, out of which 3 are managers. It should be noted that in average 2 of the managers take part in the in the process of defining the company's strategic direction of development. It can be assumed that involvement of at least 3 managers, i.e. all of them, could be referred as a more optimal number in proportion to the total number of employees. So, a bigger involvement of managers bringing intense cooperation and broader knowledge input would generate more ideas and, consequently, bring to better outcomes boosting, thus, SI. This process would involve at least three of the above mentioned drivers – People, Dialogue, and Knowledge.

The last question of the questionnaire was intended to find out what kind of activities from the managers' perspective would foster the understanding of the role of SIs in ensuring business development. The three most frequently mentioned recommendations of the 48 managers, who answered this question, were:

1. Bringing examples (33%) by, for instance, presenting case studies both of successful companies that achieved growth after applying SI and also of those companies that failed in the implementation of SI;
2. The conduction of seminars, trainings, courses, and etc. (21%) that are aimed at enhancing staff's competence;
3. Education level of the top management team (17%).

Among other suggestions were communicating the planned change/innovation, benchmarking, teamwork, R&D, IT, and etc.

As regards the education level of the managers, most of them, and namely 48,3%, possess a master degree.



**Figure 5.** Education level of surveyed managers (percentage)

As it was already mentioned above 77,5% of surveyed managers are aware of the essence of SI and 77,6% conduct SI. It is evident that there is a balance between these figures as well as with the sustainability level of the companies as evaluated by the managers. 75,7% of the managers evaluated the sustainability level of their companies (scaled from 1 to 10) as lying within the interval including rates like ‘good’ (7), ‘very good’ (8), ‘extremely good’ (9), and ‘perfect’ (10). This leads to the assumption that being informed about SI and implementing it correctly affects the sustainability of a company in a positive way. These results approve the initially formulated hypothesis of the research work: “The application of strategic innovations has a strong influence on ensuring business sustainability in creative industries in Latvia”. This means that the independent variable “Application of strategic innovations” causes “Business sustainability”, i.e. influences the dependent variable. In other words, it can be a proved that SI is the driving force for sustainability and, thus, a tool leading CI to the expansion.

However, it should be noted that given the question “How much of a company’s success you think depends on applying of SIs for fostering its sustainability?”, the percentage of respondents chosen the options ‘extremely’ and ‘very much’ comprised 58,7%. There emerges a supposition that although most of the companies are aware of SI, conduct it, and, hence, achieve a good level of sustainability, nevertheless, a relatively fewer percentage realizes that a sustainable success is considerably owed to SI. So, the implementation of SI results in corporate sustainability and, consequently, sustainability of a company is the ground for its sustainable success. According to the 2010 UN Global Compact-Accenture CEO Study “A New Era of Sustainability”, “93% of CEOs see sustainability as important to their company’s future success.” (Bertels et al., 2010)

## **6. THE NECESSITY OF WIDER APPLICATION OF STRATEGIC INNOVATIONS IN CREATIVE INDUSTRIES IN LATVIA**

Innovation is able to happen only if the capacity to innovate is present in an enterprise. Innovation capacity relates to the availability of resources, collaborative structures, and processes of solving issues. As regards the SMEs, the existence of resources concerns mainly financial sources as well as skilled labour force (Laforet, 2011). Observing the Latvian CI in



compliance with the conducted evaluation, it is evident that the CI in Latvia is mainly made up of small and micro enterprises. According to the report “The Performance of The Creative Industries Sector of Latvia and Preconditions for Its Targeted Development”, 57% of entrepreneurs evaluate that at present in the labour market there is not sufficient availability of required employees. It is especially acute for the companies that were set up in the past five years, 65% of which assess the availability of employees as not sufficient. When looking for and attracting the necessary workers for the company, in total 41% of CI companies faced with such problems as absence of qualifications and professional competence. 10% of entrepreneurs pointed out that they confronted such issues as a potential employee laziness, unreliability as well as shortcoming of communication skills and other personal characteristics of potential employees (Baltijas Konsultācijas Ltd and Konsorts Ltd, 2013).

Due to the fact that today CI in Latvia did not achieve the highest level of its expansion and are finding themselves in the development stage, this conforms to the innovation level in the corresponding industries. The Cultural Policy Guidelines 2014-2020 “Creative Latvia” highlight the fact that worldwide CI play the role of a driving force for innovations and economic competition both in the CI sector as well as in economy as a whole. This way the CI create cross-sectoral transfer effects, the so called spill-over effects, and conduce to other sectors’ enterprises development. As regards Latvia, these processes are elaborating at a slow pace, which results in Latvia taking the 25th place among the EU Member States according to indicators of innovations in compliance with the 2013 report on results of the Innovation Union. Latvia’s innovation capacity is comparatively lower than the average level of EU Member States, thus, Latvia has been measured as a “modest innovator” (Cultural Policy Guidelines 2014-2020, 2014).

Up to now, the role of CI in the elaboration of other sectors’ innovations has been realized only within the scope of individual projects and has not turned into customary practice. As a consequence, under such conditions, there arise issues like comprehension and maintenance of innovations’ significant role in the agenda as well as ensuring cooperation and synergy mechanisms for intended interaction between CI, scientific and research institutions, and other sectors of the economy (Baltijas Konsultācijas Ltd and Konsorts Ltd, 2013).

It can be stated that there is interdependence between the CI and the SI conducted within them. The higher the creativity level is the more innovations, in particular SI, can be generated in Latvia. Enhancing the CI and the understanding of it within the society will positively affect the potential of SI.

Furthermore, another important aspect to mention as regards SI is its measurability. In order to find out whether a notable innovation success occurs, financial results are being analyzed. However, these are provided just at later stages of the innovation process. Therefore, it is of great importance to identify at the earliest possible time whether an innovation has a chance of success or not. For this purpose, the use of patent statistics is being generally accepted and referred to. Patents are considered as a part of the research and development phase, which belongs to the beginning of the innovation process. It is being assumed that patent indicators in this respect are a proper and useful tool, since they include not only technical but also economic information, and are already available at an early stage of the innovation process. The results of the analysis of the innovation success on the basis of patents can have a major impact on innovation management, business performance, and competitive advantage (Bock, 2006).

If considering the patents filed in Latvia in 2014 it makes up 27, out of which 13 grants have been gained. This is the highest rate among the Baltic countries (Lithuania – 10, Estonia – 8), but nevertheless, one of the lowest in the European Union. The highest amount of patents granted in the EU as of 2014 is Germany with 13086 out of 31647 filed (European

Patent Office, 2014). Using these figures as an indicator of innovation success demonstrates as well that innovation in Latvia is at a lower level and needs to be fostered.

As to the “Economic Development of Latvia 2014” report presented by the Ministry of Economics of Latvia, the growth of the national economy of Latvia is considerably impacted by the development of global economy and maintenance of stable competitiveness. According to the scenario of more rapid development, the growth in the key export markets of Latvia will be revived in 2015. Among other factors like technology and improvement of production efficiency, innovation is expected to benefit the competitiveness of the Latvian economy as well. Yet, cheap labour force and low price of resources are not supposed to influence the economy to a big extent. Pursuant to a number of in-depth analyses, low productivity and weak innovation performance form one of the main challenges to the Latvian industrial policy (NIP) actively addressed by the state (Ministry of Economics of the Republic of Latvia, 2014).

## CONCLUSIONS AND SUGGESTIONS

The conducted survey enabled it to define the level of SI application within the framework of CI in Latvia. It should be noted that the results are better than expected. More than three quarters of the surveyed companies are aware of the essence of SI (77,5%) as well as conduct it (77,6%). Moreover, over three quarters of the managers (75,7%) evaluated the sustainability level of their companies as a remarkable one. From this it follows that being aware of SI and implementing it in the right way influences the sustainability of an enterprise in a positive way. These results enabled it to achieve the aim set at the beginning of the research, i.e. to prove that SI is the driving force for sustainability. However, a significantly lesser percentage of surveyed managers (58,7%) evaluated SI as an important factor for sustainability, thus, it is evident that the issue lies in the mindset, i.e. realizing that a sustainable success is considerably owed to SI. The necessity of more advanced and comprehensive application of SI is, hence, evident. Therefore, it would be important to extendedly present the essence and positive effects of SI.

Taking into account the fact that, nowadays, CI in Latvia did not reach the highest level of its expansion and are in the development stage, this conforms to the innovation level in the corresponding industries. It has been figured out that CI play the role of a driving force for innovations and economic competition. So, there is a close interdependence between SI and CI. In order to successfully implement directions towards SI introduction in CI companies, a focus should be set on the leadership activities and HRM team. These two factors are able to crucially impact on the SI development in Latvia.

For the implementation of SI a leadership team should distinctively communicate the company's commitment to the particular innovation and underline the logic behind it. To enable that, leadership has to provide clear and adequate signals concerning the significance of the activities and eradicate unnecessary ones. Hiring staff possessing creative capabilities and innovative traits as well as being able to produce diversity of ideas and commit to more innovation behaviors, the HRM team conduces to perspective SI processes. Having the potential to develop human capital, the HR management can facilitate creativity- and innovation-related attitudes, outlooks, and competencies of executives, team groups and separately taken employees by means of, for example, leadership trainings, promoter workshops, innovation coaching's or team developing measures.

## REFERENCES

1. Association of persons Baltijas Konsultācijas Ltd and Konsorts Ltd (2012), "The Performance of The Creative Industries Sector of Latvia and Preconditions for Its Targeted Development", available at: [http://www.km.gov.lv/lv/doc/starpnozars/radosa/2014/Report\\_on\\_CI\\_mapping\\_in\\_Latvia\\_2012\\_Summary\\_in\\_EN.pdf](http://www.km.gov.lv/lv/doc/starpnozars/radosa/2014/Report_on_CI_mapping_in_Latvia_2012_Summary_in_EN.pdf) (accessed 30 August 2015);
2. Baltijas Konsultācijas and Konsorts (2013), "Latvijas radošo industriju darbība un priekšnoteikumi nozares merktiecīgai atīstībai", available at: [http://www.km.gov.lv/lv/doc/jaunumi/jaunumi\\_2013/Petijums\\_2013\\_Latvijas\\_radoso\\_industriju\\_darbiba.pdf](http://www.km.gov.lv/lv/doc/jaunumi/jaunumi_2013/Petijums_2013_Latvijas_radoso_industriju_darbiba.pdf) (accessed 05 September 2015);
3. Bertels, S., Papania, L., Papania, D. (2010), "Embedding sustainability in organizational culture", Network for Business Sustainability (NBS), available at: <http://nbs.net/wp-content/uploads/Systematic-Review-Sustainability-and-Corporate-Culture.pdf> (accessed 05 September 2015);
4. Bock, M. K. (2006), *Patente als Mashzahl zur Messung des Innovationserfolges*, University of Economics and Business, Vienna;
5. Compendium of Cultural Policies and Trends in Europe (2014), "Cultural/creative industries: policies and programmes Policy", available at: <http://www.culturalpolicies.net/web/latvia.php?aid=423> (accessed 30 August 2015);
6. Cultural Policy Guidelines 2014-2020 "Creative Latvia", Cabinet Order No. 401, 29 July 2014;
7. Drejer, A. (2006), "Strategic innovation: a new perspective on strategic management", *Handbook of Business Strategy*, Vol. 7, No. 1, pp. 143-147;
8. Estonian Ministry of Culture (2010), "Creative Industries in Estonia, Latvia and Lithuania", available at: [http://www.km.gov.lv/lv/doc/starpnozars/radosa/CreativeIndustries\\_EstLatLit.pdf](http://www.km.gov.lv/lv/doc/starpnozars/radosa/CreativeIndustries_EstLatLit.pdf) (accessed 28 August 2015);
9. European Patent Office, "Statistics and Indicators – European patent filings; Granted patents", available at: <http://www.epo.org/about-us/annual-reports-statistics/annual-report/2014/statistics.html> (accessed 10 September 2015);
10. Laforet, S. (2011), "A framework of organisational innovation and outcomes in SMEs", *International Journal of Entrepreneurial Behavior & Research*, Vol. 17, No. 4, pp. 380-408;
11. Leal-Rodríguez, A.L., Roldan, J.L., Leal, A.G., Ortega-Gutiérrez, J. (2013), "Knowledge management, relational learning, and the effectiveness of innovation outcomes", *The Service Industries Journal*, Vol. 33, No. 13-14, pp. 1294-1311;
12. Markides, C., Anderson, J. (2006a), "Creativity is not enough: ICT-enabled strategic innovation", *European Journal of Innovation Management*, Vol. 9, No. 2, pp. 129-148;
13. Ministry of Economics of the Republic of Latvia (2014), "Economic Development of Latvia", December 2014, available at: [https://www.em.gov.lv/files/tautsaimniecibas\\_attistiba/zin/2014\\_dec\\_eng.pdf](https://www.em.gov.lv/files/tautsaimniecibas_attistiba/zin/2014_dec_eng.pdf) (accessed 10 September 2015);
14. Petraite, M. (2010), "Approaches towards Strategic Innovation Management in R&D Intensive Sectors: Lithuanian Case", *Socialiniai mokslai*, Vol. 69, No. 3, pp. 32-39;
15. Preda, G. (2013), "The influence of entrepreneurial orientation and market-based organizational learning on the firm's strategic innovation capability", *Management & Marketing Challenges for the Knowledge Society*, Vol. 8, No. 4, pp. 607-622;
16. Prince, K., Barrett, M., Oborn, E. (2014), "Dialogical strategies for orchestrating strategic innovation networks: The case of the Internet of Things", *Information and Organization*, Vol. 24, No. 2, pp. 106-127;
17. Schlegelmilch, B., Diamantopoulos, A., Kreuz, P. (2003), "Strategic innovation: the construct, its drivers and its strategic outcomes", *Journal of Strategic Marketing*, Vol. 11, No. 2, pp. 117-132;
18. Sniukas, M. (2007), *Reshaping strategy*, VDM Verlag Dr. Muller, Saarbrücken;
19. Tse, T. (2013), "Paradox resolution: A means to achieve strategic innovation", *European Management Journal*, Vol. 31, No. 6, pp. 682-696;
20. UNCTAD (2013), "Creative Economy Report 2013", available at: <http://www.unesco.org/culture/pdf/creative-economy-report-2013.pdf> (accessed 30 August 2015);
21. Zikmund, W. G., Babin, B. J., Carr, J. C., Griffin, M. (2013), *Business Research Methods*, Australia: South-Western Cengage Learning;

## FUNCTIONS AND FEATURES OF CONTROLLING IN MULTINATIONAL CORPORATIONS

**Olga Pavlovska**

*Senior Business Consultant, Wilo SE, Dortmund, Germany*

*PhD student of RISEBA, Riga, Latvia*

*e-mail: [olga.pavlovska@wilo.com](mailto:olga.pavlovska@wilo.com)*

**Irina Kuzmina-Merlino**

*Prof. Dr. TSI, Riga, Latvia*

*e-mail: [Kuzmina.I@tsi.lv](mailto:Kuzmina.I@tsi.lv)*

### **Abstract**

Era of Multinational Corporations (MNCs) started in early 2000's and immediately the role of controlling within corporations became topic of scientific discussions. During financial crisis of 2007-2009 companies have focused main attention on their survival. Economical stabilization and renewal drew attention to effective management of subsidiaries again. "The German model of controlling" which is under consideration in this article, as namely "management of management of the company" was currently described in scientific literature in comparison to human immune system. This point of view was significantly reduced scope of controlling concept. The approach largely narrows down understanding focusing only on risks missing out opportunities.

Methods of analysis and synthesis have been applied, within the Grounded Theory and The Evolutionary Theory of the Multinational Corporation. The aim is to extend scope of controlling concept via analogy of human nervous system. This will help to extend approach with additional functions and features, such as reverse knowledge transfer as well as define metrics to measure controlling effectiveness. Based on theoretical studies the hypothesis of new scope of well performed controlling and additional indirect parameters for its effectiveness measurement was presented.

As main novelty a highlighting of controlling concept incompleteness need to be mentioned, and presentation of an approach which will be able to cover this gap which provides a possibility for future development of controlling concepts in management science.

Keywords: controlling concept, effectiveness of controlling, Multinational Corporations (MNCs)

JEL Classification: F23, L25, M14, M16

### **1. INTRODUCTION**

In 1990s discussions were raised regarding Controlling as necessary element of company management. Decomposition of controlling systems became more complex in every step during this evolution (Pavlovska, Kuzmina-Merlino, 2013). The idea to take into account external factors was mentioned by Byrne and Kavanagh in 1994 for the first time. In their investigation of expansion activities to western markets they started to analyse and classify Environmental Performance Indicators (EPI). EPI split into two integrated systems - accounting measures (prevention costs and investments; operating environmental costs; contingent environmental liabilities) and non-financial measures (physical indicators; compliance) are considered. This was an example where internationalisation required more prospective than local controlling. Rapid companies' development to the higher organisational level - into Multinational Corporations (MNCs), requests new management paradigm as a key success factor. To find solution for dynamic systems one of targets would be to test strategic initiatives for their future impact before rolling them out (Kunc and Morecroft 2006). This is the reason why it is so important to develop a strong and common controlling model that will be compatible with the new development challenges.

## 2. METHODOLOGY AND DATA

The purpose of this paper is to present a qualitative research based on “The Firm and The Evolutionary Theory of the Multinational Corporation” and on “Business Network Theory” as contextual boundary of this study. “The Grounded Theory” was taken as main methodological approach (Strauss, Corbin, 2014). The Grounded Theory is the methodological approach for context specific inductive theory building. Beside of this, analytical research of Controlling definition was conducted. TRIZ and System Evolution Theory were used as main inductive tool set. Various authors have explained the term “Controlling” in a variety of ways. Therefore, every scientific study faced definition issues of "control/controlling". This was the starting point of current investigation, which as outcome gives the definition of Controlling in International Business Context.

The evolutional model of investigation as well is proved (Pavlovska, Kuzmina-Merlino 2014). If required time for hypothesis testing is comparable with tested system changes that affect testing or connected variables (in other words – experiment cannot be repeated) this method of proofing could not be accepted as relevant. The only way in this case for acceptable modelling is to create an evolutional model of the system. Any accurately constructed evolutional model will represent not only the system but also highlights possible future states of the system.

This research was conducted in the aim to develop a theoretical model based on evidence and contextual influence of investigated topic as namely to extend existing scope of controlling including new influencing factors such as function and informational sources and build a new prototype for MNCs purposes. As result of this pilot research a new concept of Controlling Framework in Multinational Corporation was provided. According to Ground Theory this concept testing should be conducted into further steps of research, and as result could give theoretical framework (Imenda, 2014).

Main research questions are:

1. Describe the evolutional model of Controlling based on multi factor analyse.
2. Define and check the main assumptions that are baseman of current Controlling concept. Check them on validity and redefine if necessary.
3. Describe a new framework for Controlling in Multinational Corporations.

As an additional result this validates future research hypothesis and provides background for quantitative testing and expert reviews. In order to conduct this type of research latest published evidence was analysed. Research design includes GAP analysis of the existing scope as well as definition analysis due to the absence of common understanding of the term “Controlling”. For these cases a classical literature research approach was used. As the second step MNCs approach was discussed. Starting from the fourth chapter controlling analysis was presented only from MNCs expectation point of view.

This study is comparing two models US and German but later discussion is focused only on the German Controlling model. As an additional limitation factor should be mentioned company size and profile – only MNCs but not SME. All limitations mentioned above introduce a concept and assumptions with direct focus on MNCs.

## 3. CONTROLLING DEFINITION AND EXISTING MODEL

The history of Controlling is quite short, but characterized by an intense maturity process of its content. Modern controlling models are much more complex and wider in comparison to the former ones, which were formed more than three decades ago, the Anglo - Saxon and German, although have some similarities. Controlling is originally a German word,

which looks as pseudo-English, and became very popular in Germany. Most often this will be translated in English as “Management Control System”. But these two terms (German and English) are not synonyms from different language. Cultural and behavioural differences give a big impact to differentiate the meaning of those.

According to Schultz (2012) in German language this comes from English “to control” and has not only the meaning of checking, but as well to manage. Controlling takes control of the company planning, coordination and control tasks, and required to provide the necessary tools and information for understanding and correcting real-time based to the management. Although work by Albrecht Deyhle (1984) presents well-developed theoretical definitions with three features: target-oriented control, controllers and managers acting as a team, and interplay between analytics and soft factors. This should be considered as the real starting point, after which the practical application of Controlling has spread rapidly. On the same time, practical application always gives chaotically development of theories. In particular, new developments have taken place in terms of scope of activities (strategy, risk, and sustainability), future orientation (e.g., early warning) and the role of the controller (proactive, jointly responsible).

Let us have a look more closely how this basic ideas were developed over the time, and whom we need to consider as main players on this field – core theory and practice developers. To organize this presentation in a more structured way we will look thought different dimensions, and measure degrees on it. The 1st dimension that will be watched-out is the scope of controlling. The 2nd will be future orientation, the 3rd – role of the controller, and the last but not least place of Controlling in the organization.

To get a second vector in our investigation we will have a look in historical scale and geographical location. At 1st, this should be split to “USA and following this principle countries” understanding from “German and following this principle countries” understanding of controlling concept. Basic difference could be shown in the scope, but not only (Table 1 was developed by authors based on Jackson (1949), Falko (2008), Vollmuth (2007), and The Dictionary for Controllers (2010)).

Table 1

#### Controlling model comparison USA vs German

	USA model	German model
Scope	Check and properly present information to stakeholders	Help to plan, trace and correct operational and strategical level of the business
Future orientation	Mostly check existing situation and reasons why it was happened	Beside of history tracking try to predict future
Controller's role	Auditor, eyes and hands of stakeholder onsite	Help to plan, lead and develop company
Place in the organization	As external part, only for large organizations	Internal, depending of the size some activities can come additionally

Starting from this point we will discuss only the German model of controlling, due to wider definition and responsibilities and of course due to potential outcome, which the German model gives to Multinational organizations in context of sustainability and future development. The German model was actively developed, adjusted and localized further in several countries with different level of maternity, such as Chinese, Japanese, Bulgarian, Russian and others models (Falko, 2008).

With focus on this controlling-model development evolution and main views on the prototype of the controlling instance in the real world will be presented. In this point it is very

important to understand, that every further step was increasing the previous scope of controlling, but not change this completely. This led to an increase of complexity, (scope extends) and as a result requests more and more resources. This is natural genesis – new challenges request all previous functions plus additional, and will be shown in table below. Table 2 presents the following characteristics: time periods, change of scope of controlling (only additional functions, which were included on a particular stage), prototype and main authors.

Table 2

### Scope evolution of controlling development

Time period	Scope of controlling	Prototype	Main authors
1930-1970s	Finance controlling, mostly focused on cost	Simple sensor	Deyhle, A., Mann, R., Mayer, E., Vollmuth, H.J., Scown, T
1970-1980s	Support information system, reporting, single point of trust for management	Simple automat	Reichmann, Th., Preishler, P., Schaffer U.
1990s	Planning and control of budget	Simple toolbox	Hann, D., Horvath, P., Schneider, D.
	Coordination function to achieve goals and pre-defined targets	Communication center	Küpper, H.-U., Bendak, J., Schmidt, A., Weber J.
	Company management system – from planning and budgeting to correcting action implementation after deviation analysis. KPIs and business processes	Negative feedback, Homeostasis	Steinmann, H., Kustermann, B., Schreyogg, G., Newman, WH., Russell, KA., Siegel, GH., Kulesza, CS.
2000s-2014	Decision making system, knowledge management system	Immune system (react only on problems)	Steinmann, H., Scherer, AG., Ortmann, G., Sydow, J., Windeler, A., Becker, A.
On demand	Management system which provides flexible planning for dynamic targets, and provide pro-actions for unpredictable events	Nervous system	Defined by the authors

As shown from the previous table the German concept of Controlling was started in 1930s and has no significant development till 1990s, later on globalization enforces transformation from local companies level into corporations. This, as a new force, pushes a new cycle of controlling development. This moment is the starting point of export of the German Controlling Model into other countries.

#### 4. MNCS AND NEW BASIC ASSUMPTIONS FOR THE CONTROLLING MODEL

Up to now, in the MNCs development, the parent headquarters (HQ) have a lot of challenges. For example, Foss, Foss & Nell (2012) examined HQ and determine as follows: “It is recognized that the HQ may be ill-informed, for example because of information overload, radical uncertainty, or sheer ignorance, and may suffer from “bounded reliability”.” They as well have mentioned, “that the movement away from more traditional hierarchical forms of the MNC and towards network MNCs placed in more dynamic environments gives rise to more occasions for potentially harmful intervention by HQ.”

This leads us to change our previous assumptions. The first quite dangerous believe, which gives more threats than opportunities: – “We can operate, control and manage in the other

markets on the same way as in our original (local) market.” The absolute confidence to the uniformity and symmetry hustles managers to ignore information asymmetry, geographical and cultural differences, time zone shifts, etc.

The second assumption – “Historical information and analysis of this can predict the future”. And beside of this companies try to simplify situations with a limited number of variables taken into account.

Until now “The International Group of Controlling” recommends to use BSC (Balanced Scorecard) with 4 dimensions, which is not able to represent the impact of uncertainty. This as well will not display acceleration/deceleration as 2nd derivation on the most important trends. Reaction time with this approach is that big, that leads to work with the consequences instead of pro-active behaviour.

Taking the above into account, the 1<sup>st</sup> new assumption will be: “Markets are not homogeneous”. This assumption was indirectly confirmed by Le Cottier and Santalo (2014): “We also demonstrate that subsidiaries perform better when the distance in market munificence between their home and host markets is small. Analysis of a unique panel database, gathering ownership ties and financial performance for 3,828 listed multinational corporations (MNCs) and 18,234 of their European subsidiaries over a three year period.” Based on the previous assumption, we can put forward the following: “Other markets should be operated differently as the home market. This difference is able to give a big impact into the final result.” And accordingly historical information: “Historical information can cover only a part of our future vision”.

## 5. NEW MODEL DEVELOPMENT

Accepting MNCs as complex systems with a lot of interactions and degrees of freedom, controlling of such systems will be represented by a multifactor model, where no factor can be pointed as major, but only jointly composition of those able to a give realistic snapshot of business.

The main gap in currently popular controlling concepts for MNCs is a lack of adaptation to dynamic environment, which concluded based on previously discussed assumptions. This can be represented based on a new prototype - Nervous system (react not only on treats but as well on opportunities, learning and self-changing through this process). To provide basement of this conclusion in the table below is presented a detailed analysis of the main functions and information sources development in controlling paradigm.

Controlling ideas were presented in historical sequence; where the core concept was taken from the original definition. And the 3<sup>rd</sup> column highlights additional scope points, which were added during this step of controlling development. The last column describes to whom this controlling model is suitable indeed - company profile and company focus points. Taking into account, that the previous (earlier in this sequence) model will not be able to support all company activities due to a lack of functionality. But the next model will give more than it's required, and encumber without any additional value. The row 7 presents the new conceptual approach for designing a new controlling model - functions and sources, which is advocated by the authors.



Table 3

**Evolution of the Controlling concept through prism of a company profile**

	Controlling definition (core idea)	Detailed scope of controlling and information sources	Main focus and company profile
1	System of cost accounting and reporting	<b>Main functions:</b> Creating methods and tools of cost and later managerial accounting. Organize internal cost (managerial) accounting in company. <b>Main sources:</b> Accounting data (including managerial accounting approach on the later stage)	Focused on production, small companies, in the small market
2	Informational support for budgeting, funds requirements, reports and historical data analysis.	<b>Main functions:</b> Informational support of management. Tools for budgeting and funding. Cash flow forecast. Business planning tools. <b>Main sources:</b> All functional process measurements.	Focused on individual product portfolio, small companies, in the middle size market
3	Split between strategic and operational controlling. Different level of planning.	<b>Main functions:</b> Target definition <b>Main sources:</b> Planned with actual date from functional areas	Focused on future development or/and R&D, Middle size companies in the middle size market
4	Coordination function to achieve goals and pre-defined targets	<b>Main functions:</b> Coordination and balancing of company processes to achieve pre-defined targets. <b>Main sources:</b> Structured hierarchical reporting.	Focused on client's marketing with various processes inside or outside of the company, mostly middle – large size local companies in the big local markets.
5	System of management with several sub-systems of planning, budgeting, funding, as well control target fulfilment and correction action if required.	<b>Main functions:</b> KPI control for every functional area of the company. Deviation analysis. <b>Main sources:</b> KPI and deviation of targets.	Focused on the wide network organization, middle and large companies with subsidiaries, mostly with traditional hierarchical forms of leadership
6	Decision making support system, knowledge transfer.	<b>Main functions:</b> Complete information for decision-making. Knowledge transfers from headquarters to subsidiaries. Reflection of processes and its formalization. Forecasts. <b>Main source:</b> Knowledge management system.	MNCs with traditional hierarchical leadership style which are focused into existing in the long run
7	Management of company management	<b>Main functions:</b> Corporate performance – multi process model. Effectiveness and efficiency of decision-making. Decision making unit. Methods and tools for flexible planning and company development. <b>Main sources:</b> Informational management system (includes but not limited) corporate performance management, ERP, CRM, MMP and others Globalization dimension Environment factors	Network MNCs with focus on sustainability, effective and efficient management on all levels of the company

Evolution periods were described according to Table 2.

## 6. RESULTS AND DISCUSSION

Nowadays we can define Controlling as management of a company's future, which can be described as aligning of a whole system development with its elements development, oriented on the future targets of a particular company. The future targets in this case are strategy and mission realization of the company (Drury, 2007). This approach leads us to

accept Controlling as one of sub-system of the company, which takes several roles and should grow together with the company. Controlling of development or better name, self-development of the company cannot be realized with the focus only on internal factors. As far as an environment became highly dynamic, strategic targets should be adjusted accordingly, or could become non actual rapidly. This should be included in the meaning of Controlling, and suddenly, when a company became as multinational, the sensitivity of this role increases dramatically.

As well-known from TRIZ (Altshuller, 1984) system development is always asynchrony, and different sub-systems have a different speed of development, it raises conflicts and contradictions. If we will re-phrase “The law of uneven development of parts of a system” - A system encompasses different parts, which will evolve differently, leading to new contradictions. Without alignment and balancing the system became ineffective and inefficient, and this successively leads to no possibilities to reach strategic targets. To visualize and understand controlling we can find several analogies in biology or engineering science. One of them - controlling we can imagine as a nervous system, which keeps coordination between different, processes and systems like organs, muscles and etc. Any of us could expect result of functional problems of nervous system in organism, similar situation with not working controlling in organizations. And, of course, there are rules - similar to biology science, the nervous system complexity should correspond to bio-system complexity. The rule might be repeatable in management science as well.

The new controlling model, according to our prototype will coordinate all types of activities in all organisational levels of the MNC and transmit signals to and from different parts of the MNC. We are looking at Controlling as an integrated morphological and functional set of various interrelated structures that are mutual activities of all MNC systems and generate a response to internal and external conditions changes. Signals will have a different level. Some of the signals should have highest priority on the level where they are appearing, like the reflex of hand's withdrawal from the hot.

Aggregation of indicators for transmitted signals, in this cases as well not that trivial thing. In simple aggregation we can lose “weak signals”. Or get average value with lost meaning and give misinterpretation. That is why aggregation of signals should be developed based on fuzzy logic.

## CONCLUSIONS

Looking to the nature of controlling taking into account recent globalisation processes, guides us to review the described opinion. The development of the new controlling model was highly required from MNCs and is a critical factor of effective management and as result of sustainability. Well-known Controlling models that are mainly based on historical data and financial information only are not able to solve all practical needs of modern MNCs. In the recent publication Controlling was observed as static tool for management decision support.

Main outcomes are:

1. German model of Controlling was presented as wider than USA model. The factors that were taken into considerations were timeframe, maturity level of company, market local or global, company size and prototypes.
2. The current theory of Controlling was based on 2 main approaches: the 1<sup>st</sup> is only historical information that was taken into consideration for management and prediction. The 2<sup>nd</sup> is a unified system – procedures were applied to a whole group – headquarters and subsidiaries, and not adopted to cultural differences or other locally specific needs. The new assumptions were defined as following: “Markets are not homogenous”, “Other markets should be

operated differently as the home market. This difference is able to give a big impact into the final result.”, “Historical information can cover only a part of our future vision”.

3. The study and analysis of evolution of Controlling concepts allows to define the new assumptions for designing a new model of Controlling, which is mostly based on Management approaches and Theory of Decision Making. These new assumptions give a chance to propose new features of next Controlling model generation. This defined model could be represented within analogy with human nervous system.

## REFERENCES

1. Altshuller, G. S. (1984). Creativity as an exact science. Gordon and Breach.
2. Becker, A., & Messner, M. (2005). After the scandals: a German-speaking perspective on management accounting research and education. *European Accounting Review*, 14(2), 417-427.
3. Bendak, J.: Controlling im Konzern, Milnchen, (1992)
4. Binder, C., & Schaffer, U. (2005). Die Entwicklung des Controllings von 1970 bis 2003 im Spiegel von Publikationen in deutschsprachigen Zeitschriften. *Die Betriebswirtschaft*, 65(6), 603.
5. Byrne K., Kavanagh D., DK's Library, 1994, Measuring strategic environmental performance, *Business Strategy and the Environment* 3 (1): p. 1–14
6. Controlling process model, 2011, International Group of Controlling (Publishers), Horvath & Partner (Editors), Haufe Verlag
7. Deyhle, A. (1967). Gewinn-Management. Verlag Moderne Industrie.
8. Deyhle, A. (1984). Controlling and the controller. Management Service Publishing.
9. Drury, C. (2007). Management and Cost Accounting. Cengage Learning EMEA.
10. Hahn D. PuK, Controllingkonzepte: Planung und Kontrolle, Planungs- und Kontrollsystem, Planungs und Kontrollrechnung. - 5. Aufl. Wiesbaden, 1996. S.23- 27
11. Horvath P. Controlling. 7. Aufl., - Munchen: Vahlen, 1998. 902 s.
12. Foss, K., Foss, N. J., & Nell, P. C. (2012). MNC organizational form and subsidiary motivation problems: Controlling intervention hazards in the network MNC. *Journal of International Management*, 18(3), 247-259.
13. Imenda, S. (2014). Is There a Conceptual Difference between Theoretical and Conceptual Frameworks? *Journal of Social Sciences*, 38(2), 185-195.
14. Jackson J.H. The Controller: His Functions and Organization. -2. Printing. Cambridge, Mass, 1949. 257 p.
15. Kunc M., Morecroft J., 2006, Business Dynamics for Strategic Development, The 24th International Conference of the System Dynamics Society: p. 1-24
16. Kupper, H.-U. 2001. Controlling. Konzeption, Aufgaben und Instrumente. 3, uberarbeitete und reweiterte Auflage, Schaffer-Poeschel Verlag, Stuttgart.
17. Le Cottier, A., & Santalo, J. (2014, January). The Impact of Parent Firms' Market Munificence on MNCs' Subsidiaries Performance. In *Academy of Management Proceedings* (Vol. 2014, No. 1, p. 14147). Academy of Management.
18. Mann, R., & Mayer, E. (1992). Controlling fur Einsteiger. Freiburg. i. Br.
19. Mayer, E. (1986). Controlling als Führungskonzept. In *Controlling-Konzepte* (pp. 1-41). Gabler Verlag.
20. Newman, W. H. (1984). Managerial control. Science Research Associates.
21. Ortmann, G., Sydow, J., & Windeler, A. (2000). Organisation als reflexive Strukturierung (pp. 315-354). VS Verlag fur Sozialwissenschaften.
22. Pavlovska, O., & Kuzmina-Merlino, I. (2013). Evolution of Management Controlling Framework: Literature Review. *Procedia-Social and Behavioral Sciences*, 99, 1044-1053.
23. Pavlovska, O., & Kuzmina-Merlino, I. (2014). SCALE DEVELOPMENT FOR LEAN IMPLEMENTATION IN INTERNATIONAL ENVIRONMENT. *Journal of Business Management*, (8).
24. Preishler, P. (2007). Controlling, 13. Auflage, Munchen.
25. Reichmann, Th. (1990). Controlling mit Kennzahlen. Muenchen.
26. Russell, K. A., Siegel, G. H., & Kulesza, C. S. (1999). Counting more, counting less. *Strategic Finance*, 81(3), 38.
27. Schmidt, A. 1986. Das Controlling als Instrument zur Koordination der Unternehmungstührung. Frankfurt.
28. Schultz, V. (2012). Basiswissen Rechnungswesen: Buchführung, Bilanzierung, Kostenrechnung, Controlling (Vol. 50815). CH Beck.
29. Schneider, D. 1992. Kontrolle, Controlling und Unternehmungsführung. Wiesbaden.

30. Steinmann, H., Kustermann, B. (1998): Management Theory on the Way to a New Paradigm? Critical Reflections on the Concept of Robert Simons, in: S. Urban (Ed.): From Alliance Practices to Alliance Capitalism, Wiesbaden: Gabler 1998, pp. 241-274.
31. Steinmann, H., & Scherer, A. G. (1996). Controlling, strategisches und operatives. Lexikon des Controlling. Munchen, Wien: Oldenbourg. S, 135-139.
32. Steinmann, H., Schreyogg, G. (1997): Management. Grundlagen der Unternehmensfuehrung, 4th ed., Wiesbaden: Gabler 1997.
33. Strauss, A., & Corbin, J. M. (2014). Basics of qualitative research: Grounded theory procedures and techniques. Sage Publications, Inc.
34. The Dictionary for Controllers (2010) (editor: International Group of Controlling) is published by Schaffer-Poeschel Verlag, Stuttgart , Germany
35. Vollmuth, H. J. (1999). Führungsinstrument Controlling: Planung, Kontrolle und Steuerung. WRS, Verlag Wirtschaft, Recht und Steuern.
36. Vollmuth, H. J. (2007). Controlling-Instrumente von A-Z: Die wichtigsten Werkzeuge zur Unternehmenssteuerung (Vol. 1007). Haufe-Lexware.
37. Weber J. Einführung in das Controlling. 7. Aufl. Stuttgart: Schaffer-Poeschel, 1998. 410 s.
38. Falko S.G. Kontrolling dlja rukovoditelei specialistov. M.:Finansi i statistika, 2008. 272 S. ISBN 978 5 - 279 - 03249 -5.

# THE AGE OF MARRIAGE MATTERS: SOCIAL ENTREPRENEURS' MATURE AGE AND BUSINESS SUSTAINABILITY

**Julija Kuznecova**

*PhD student, BA School of Business and Finance, Kr.Valdemara St. 161, Riga, Latvija  
e-mail: [yute15@gmail.com](mailto:yute15@gmail.com)*

**Iveta Cirule**

*PhD student, RISEBA University, Meza St. 4, Riga, Latvija  
e-mail: [iveta.cirule@riseba.lv](mailto:iveta.cirule@riseba.lv)*

## **Abstract**

Purpose – Nowadays consciously or not in the Baltic states and in the European Union as a whole it has become a tendency to engage young people into social innovation and social enterprises' establishment stressing the importance of these processes as tools aimed at youth employability and sustainable career solutions. Though, by this unofficially setting the age limit and consequently underestimating and leaving those people who are over 30 behind and who are also motivated to establish social enterprises and what is more they have already got the necessary knowledge and work experience. The purpose of this article is to draw attention to the fact that there should be a broader focus than it is now on who might become a financially sustainable social entrepreneur, to encourage policy makers and public institutions to consider also “mature” people with life experience as social entrepreneurs and provide them incentives to the benefits of the society.

Design/methodology/approach – The authors used qualitative research methods, including judgement sample analyses of Ashoka and Schwab foundations social entrepreneurs' profiles and social entrepreneurship support initiatives.

Findings – In this article the authors have provided the proof to the assumption that people over 30 should be also included into the target group by policy makers for being engaged into social entrepreneurship.

Contribution of the research – The authors have identified one of the possible impact factors influencing Latvian social enterprises' business sustainability, thereto mentioning one of the presumable impediments, which is the lack of business experience and knowledge since meeting at once social and economic goals require not only a youngster thrill. Thus, active attraction of people possessing the above stated, who are over 30 into social innovation and social enterprises' establishment could contribute considerably to the successful development of both. This research extends scholarly understanding of social entrepreneurship in terms of business sustainability and age limits.

Keywords: social entrepreneurship, social enterprise, social innovation, start up, entrepreneurial age, business sustainability

JEL code: L31, L32, M13, O35, J24, L21

## **1. INTRODUCTION**

### **Social enterprises' characteristics**

A social enterprise (SE thereafter) is defined as an organization, which works to achieve social goals by means of an entrepreneurial activity and that usually originates as a community project or is initiated by a collective action (Borzaga and Defourny, 2001) lying at the crossroad of market, public policies and civil society (Nyssens, 2006). Apart from that, social entrepreneurship has been broadly characterized as an innovative social venture (Dees & Anderson, 2003; Cochran, 2007), and as the use of market-based activities in order to solve social needs as well as receive earned income through innovations (Thompson, 2002). According to Austin et al. (2006), the main difference between social and commercial entrepreneurship is different missions. While commercial entrepreneurs are focused primary on profit for themselves, social entrepreneurs' primary aim is creation of social value. Despite the importance of the social economy and SEs to Europe, there is *significant discourse* over both the definition and identification of such organizations (Adams et al., 2003). According to Peattie and Morley (2008) the problems with defining SEs are linked to a tendency by certain

authors to focus on particular characteristics (e.g. profit generation and distribution) which cannot be applied across the whole sector.

Social entrepreneurship challenges a person to be morally ready to work hard and primarily be satisfied more by social outcomes rather than by financial ones, though to be sustainable, social enterprises have to be profitable while this profit does not have to be distributed among its owners. Rather it has to be reinvested (at least 80%) into an enterprise or transferred to other social projects.

A number of authors have identified sustainability as being key in their respective definitions of SEs (Birch and Whittam, 2006; Pearce, 2003). Business sustainability is often defined as managing the double or/and even triple bottom line - financial, social and environmental. It implies resiliency over time by intimately creating *economic value* and contributing to healthy ecosystems and *strong communities*. Thus, as Gray (2010) proposes any foreseeable sustainable state will be the result of interactions between organizations, individuals, societies and states. According to the World Council for Economic Development (WCED), “sustainable development addresses key issues at the macro level: economic efficiency (innovation, prosperity, and productivity), social equity (poverty, community, health, wellness) and environmental accountability. The authors agree with the following characteristics of social enterprises proposed by Thompson, J., Doherty, B., (2006) first of all, they have a social purpose; secondly, their assets and wealth are used to create community benefit and thus, they are accountable to both its members and a wider community; thirdly, profits and surpluses are not distributed to shareholders, as is the case with a profit-seeking business; in addition, “members” or employees have some role in decision making and/or governance and finally there is either a double- or triple-bottom line paradigm.

#### **Present status of social enterprises in Latvia**

At present there is still no legal framework for social enterprise in Latvia, although the Latvian government has been being engaged in the process of developing one. On 24<sup>th</sup> May 2013, the Ministry of Welfare (Order No. 35) established a working group on social entrepreneurship development in Latvia. In March 2014, the working group presented the concept “On Social Entrepreneurship launching possibilities in Latvia” and in October 2014, the Cabinet of Ministers by the Act No. 618 authorised the Ministry of Welfare to launch a pilot social entrepreneurship project from 1<sup>st</sup> January 2016 to 31<sup>st</sup> December 2018, which will be followed by a legal act in 2019. In the framework of a pilot project, financial support measures are foreseen for the already active social enterprises, as well as, for the establishment of new ones. Currently an on-going work is taking place aimed at drafting guidelines and appropriate regulatory conditions for this pilot project. In this respect, it is crucially important *not to set too narrow frames* also including *age* for those *who to engage* into social enterprises establishment in Latvia.

Meanwhile, it is acknowledged officially that youth unemployment in Latvia is one of the key burning social issues, so targeting primary young people in the age group from 18 to 30 to attract into social entrepreneurship is a narrow-minded way of thinking, since the *necessity* driven engagement qualitatively differs from the *opportunity driven* one, where inner motivation plays the major role, therefore, not only youngsters with their thrill but experienced and with background knowledge older people might become social entrepreneurs contributing to social enterprises’ sustainability.

Nowadays, social enterprises in Latvia mostly operate under two legal forms – a foundation/association or a private limited liability company. Unfortunately, most of them hardly meet their business sustainability due to various reasons and one of which could be identified as a lack of experience and knowledge in mainstream businesses. Since the

endeavour to survive in the marketplace competing with traditional companies in most cases is just simply not met as social enterprises are often small and basically personality driven.

## 2. LITERATURE REVIEW

### **Theoretical references to the correlation between social entrepreneurs' mature age and business sustainability**

Scholars researching the topic of a successful social entrepreneur's personality agree that work or /and business experience play one of the crucial roles and benefits business sustainability of a social enterprise. As Thomson et al. (2000) state that probably using people who have already achieved in the field – and who are happy and willing to share their knowledge. Since, professionals attracted to this sector as a rule have already possessed many of the skills and the confidence. Here, the issue of the “right people” is important. Some people who are willing to volunteer their services and time may be inadequately skilled and qualified, and without appropriate training will inhibit rather than enhance the initiative. Besides, Thomson et al. (2000) suggest assessing the real effectiveness by quantitative measures such as the number of clients benefiting, external monies raised, the number of jobs created and the numbers of volunteers (or honorary professionals) attracted are all ideal for benchmarking purposes. Moreover, Parsons (2015) considers that we should assume that individuals' ability to implement successfully the innovation increases as they mature. So, while maturing, they will grasp dramatically information on the procedural organization of enterprises, on human resource management and processes developing gradually communication and organizational skills, which will help them to succeed. This assumption is consistent with intellectual capital theory. As such, we will assume that *age* will have a *positive benefit* on the *probability of success* and a corresponding and opposite impact on the probability of failure. When looking at the costs and benefits to an individual of innovation, it appears that age should be included as a *primary driver* in the function for benefit, cost and probability of success.

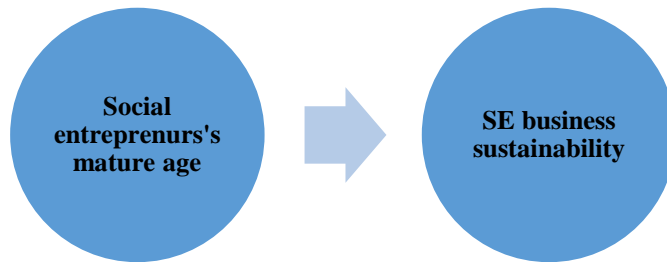
Meanwhile, Prabhu (1999) shares a view that young people may be more willing than middle-aged to risk several years of their lives in order to build social enterprises before they enter mainstream businesses. The latter face a greater risk in terms of a career growth as they may be switching from a sound career in the traditional business.

Apart from that, young people are likely to initiate social actions or developmental activities while older people are prone to commence charitable ones. The latter may be people who, have been absolved from their familial responsibilities driven by a strong desire to make meaningful commitments into the prosperity of the society. Some of these may be mainstream entrepreneurial leaders who are absolutely satisfied with their financial/economic growth but wish to contribute socially introducing transformational social changes. Also, it is undeniable that the world on the whole is facing a dramatic shift in its age profile: those in the “third age” comprise an even greater proportion of the global population (Tempest *et al.*, 2002).

Mature age brings such assets as: personal and work skills, experience and knowledge (Platman, 2003); autonomy and motivation (Fraser et al., 2009); accumulation of financial resources (Hart et al., 2004). Taking the above mentioned into consideration, the authors tend to think that the desire to set up a social enterprise has to be combined with experience, knowledge and realistic approach of reaching and maintaining business sustainability of an enterprise established.

Nowadays social entrepreneurship has been acknowledged as a tool addressing social and economic issues of the society, whereas the questions concerning the assurance of social enterprises' business sustainability still remains the topical one. Thus, while considering

social enterprises *business sustainability's impact factors* the authors have identified social entrepreneurs' age as one of them (see Figure 1).



**Figure 1.** Social entrepreneurs' mature age as one of social enterprises' business sustainability impact factors

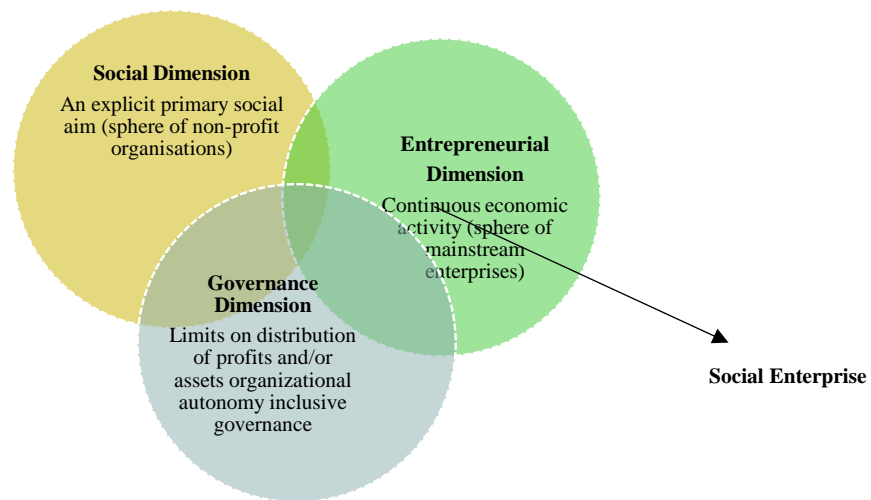
*Source: summarised by authors*

The authors believe that being a successful social entrepreneur requires from a person a strong inner motivation to follow a chosen path *possessing a profound life and work experience, which turns theoretical knowledge and background into sound practical deeds*. Social entrepreneurs are driven by a conscious desire to turn social problems into opportunities by changing for good not only certain cases but whole systems introducing approaches how to deal with the issues.

The authors assume that besides socially driven aspiration social entrepreneurs have to be dedicated and business-minded, possessing at least basic competencies within the management, including financial, strategic and human resources management, as well as understanding all the undergoing risks. Apart from that, the awareness of the external environment is particularly important in organizations, which have originated in voluntary or public sector as being social enterprises they have to operate in a competitive marketplace delivering quality products/services. There may be also an opportunity to *attract downshifters, who possess strong business acumen*, to a career in social entrepreneurship.

In spite of numerous variations recently across the EU countries have been established unified core criteria of a social enterprise in order to distinguish social enterprises from mainstream enterprises and traditional social economy entities and map social enterprises' activity and eco-systems. The following core criteria were established: the organisation must engage in economic activity: this means that it must engage in a continuous activity of production and/or exchange of goods and/or services; it must pursue an explicit and primary social aim: a social aim is one that benefits society; it must have limits on distribution of profits and/or assets: the purpose of such limits is to prioritise the social aim over profit making; it must be independent i.e. organisational autonomy from the State and other traditional for-profit organisations; and, it must have inclusive governance i.e. characterised by participatory and/ or democratic decision-making processes (see Figure 2).





**Figure 2.** European social enterprise (Wilkinson et al., 2014)

A number of authors have described social entrepreneurs as *heroic, bold individuals* or groups of people who provide innovative solutions that create and sustain social value (Dees, 2001; Vega and Kidwell, 2007). Most literature on social entrepreneurship also highlights international differences. The term ‘social entrepreneur’ and the heroic individual perspective has, until recently, been particularly emphasized by *American* organizations, such as Ashoka. In contrast, the European literature has discussed the *collective nature* of the social enterprise more (Defourny and Nyssens, 2006). According to Vega and Kidwell (2007), social entrepreneurs develop solutions to social problems that have not previously been applied by the private, public or voluntary sectors.

The authors consider that there should be applied, so called, *blended* approach uniting the will-power, charisma, experience and knowledge of a social entrepreneur as an individual with collective nature of a social enterprise building up a sustainable social environment at various levels including the advantages of SE inclusive governance.

### 3. THE PURPOSE OF THE STUDY

The purpose of this article is to draw attention to the fact that there should be a broader focus than it is now on who might become a potential financially sustainable social entrepreneur, to encourage policy makers and public institutions to involve into social entrepreneurship also “mature” people with life experience, knowledge and incentives to benefit the society.

### 4. MATERIALS AND METHODS

#### Judgement sample analysis of Ashoka and Schwab foundations social entrepreneurs’ profiles

The authors used a qualitative research method that is judgement sample analysis of Ashoka and Schwab foundations social entrepreneurs’ profiles. International social entrepreneur network organizational platforms foundations such as Ashoka and Schwab have been at the forefront of identifying, supporting and uniting the leading social entrepreneurs worldwide who are changing patterns and transforming systems.

As it is defined by Ashoka “social entrepreneurs are individuals with innovative solutions to society’s most pressing social problems; they are ambitious and persistent, tackling major social issues and offering new ideas for wide-scale change; rather than leaving societal needs to the government or business sectors, social entrepreneurs find what is not working and solve the problem by changing the system, spreading the solution, and persuading entire societies to move in different directions”. The Schwab Foundation for Social Entrepreneurship advances leading models of sustainable social innovation improving the state of the world in close collaboration with the World Economic Forum.

The profiles were selected on the basis of the authors judgements, so called deliberate choice embracing some of the most vivid and typical examples in regard to the aim of the study. The merits of the chosen scientific method implicate simplicity, clarity and cost-effectiveness, whereas among limitations of the judgement sampling, which is a non-random technique could be mentioned a certain degree of subjectivity leading to probably a bit lower accuracy than it could be expected. Though, for a preliminary stage of a scientific discussion while the authors are still testing the feasibility this method is certainly worth implementing since it obviously depicts the topical issue of the study proving evidently the raised assumptions.

The main criteria for the selection of successful social entrepreneurs profiles from Ashoka and Schwab foundations databases was the age of the founder and the secondary, complementary aspect was the geographical coverage of a social enterprise giving priority to the EU countries as they are more relevant for the Latvian context than the African or Asian ones. As data selection contributes to a better understanding of a theoretical assumption, the judgement sampling is one of the most appropriate scientific methods for the given study.

#### **Judgement sample analysis of social entrepreneurship support initiatives**

The authors have complemented the above mentioned judgement sampling analysis by judgement sample analysis of social entrepreneurship support initiatives ensuring the inherent bias of this combination which is scientific efficiency. Since a coherent framework of theoretical references and a corresponding logic of inquiry are required (Lane and Ersson, 1994). Authors have selected several initiatives – national programs, international projects and related activities, supporting social entrepreneurship development in the European Union in order to analyse them with the respect to the age as the one of selection criteria.

## **5. RESULTS**

### **Judgement sample analysis of Ashoka and Schwab foundations social entrepreneurs’ profiles**

The authors have read and analysed profiles of leading social entrepreneurs from *Ashoka* and *Schwab* foundation and the results of judgement sample analysis have shown the inference that *maturity* of social entrepreneurs who possess life and work experience *contributes* gradually to the sustainability of social enterprises they run reducing the risk of going bankrupt or just relying on grants. There have been chosen ten profiles, five from Ashoka and five from Schwab foundations. Ten out of ten social entrepreneurs were over 30 years old when they established their social enterprises, which became successful and financially sustainable, moreover, all of them have had business or/and work experience in the chosen field and above all inner motivation being not necessity but opportunity driven personalities.

The assumption that social entrepreneur mature age might act as an impact factor contributing SE business sustainability has been proved. Below the authors present data on two leading social enterprises and social entrepreneurs, who are Ashoka and Schwab Fellows

as typical samples of successful social entrepreneurs, whose social enterprises are financially sustainable (see table 1).

Table 1

	<b>Ashoka &amp; Schwab Fellows</b>	
	<b>Ashoka Fellow</b>	<b>Schwab Fellow</b>
Social entrepreneur	Tomasz Sadowski	Marco Roveda
Organization	Barka Foundation for Mutual Help	LifeGate Group
Year founded	1989	2000
Entrepreneur's age when the organization was founded	<b>46</b>	<b>49</b>
Born in	1943	1951
Country	Poland	Italy
Website	<a href="http://www.barka.org.pl">www.barka.org.pl</a>	<a href="http://www.lifegate.it">www.lifegate.it</a>
Focus	Homelessness, Housing	Communications/Media, Consumer Awareness, Energy, Environment, Trade
Area of Impact	Poland	Italy
Model	Hybrid Non-Profit	Social Business
Annual Budget	US\$ 1,161,911 (2008)	US\$ 16 million (2010)
Earned Revenue	31%	100%
Recognition	Ashoka & Schwab Fellow, UN Habitat Award, World Bank Award of the Global Development Network, SOLIDAR Silver Rose Award, Pro Publico Bono Grand Prix, and the Albert Schweitzer World Academy of Medicine Gold Medal	Schwab Fellow, Social Entrepreneur of the Year, Italy, 2007

*Source: summarised by authors*

Before establishing his social enterprise Mr Sadowski had gained a solid work experience and knowledge working as a prison psychological consultant and the founder and director of an innovative rehabilitation centre for ex-psychiatric patients that proved to be too unorthodox for government mental health services, which eventually he transformed it into the Barka organization. He was also the founder of a regional centre for non-profit initiatives and initiated a "Nongovernmental Organization Parliament" with 150 organizations.

Also, before the establishment of the social enterprise Mr Roverda had acquired a profound business and work experience, which in turn resulted in success of his social enterprise, to illustrate that, in 1978 he embraced biodynamic agriculture, and in 1981 found the first organic food company in Italy. LifeGate has become a meeting point for people and companies to focus their ethical and sustainability principles.

### **Judgement sample analysis of social entrepreneurship support initiatives**

The majority of selected initiatives have the age limit, thus, excluding the mature social entrepreneurs. Some initiatives are supported nationally on the state level (e.g. France and the United Kingdom) and on regional level (e.g. Scotland), some initiatives are supported via several project activities funded by the EU programs (e.g. Latvia).

Table 2

**Initiatives supporting social entrepreneurship development in EU with the respect to the age limit**

Country	Initiatives	Age limit	Brief description
Latvia	<b>SOCIFACTION</b> <a href="http://www.socifaction.com/">http://www.socifaction.com/</a>	18-29	Accelerator program designed for passionate young individuals with ideas for solving social and environmental issues.
France	<b>Jeun'ESS initiative</b> <a href="http://www.jeun-ess.fr/">http://www.jeun-ess.fr/</a>	till 30	Public-private partnership between a number of ministries and six enterprises and foundations from the social economy sector. It is based on three pillars: promotion of the social economy <u>amongst young people</u> , particularly through the education system; initiatives <u>for young people in</u> the social economy; integration of <u>young people in</u> the enterprises of the social economy.
The UK	<b>UnLtd</b> <a href="https://unltd.org.uk/path/">https://unltd.org.uk/path/</a>	under 21 (11-21)	The leading provider of support to social entrepreneurs in the UK. It resources hundreds of individuals each year through its core Awards programme.
The UK, Scotland	<b>CEIS</b> <a href="http://www.ceis.org.uk/case-studies/">http://www.ceis.org.uk/case-studies/</a>	till 30	The UK's largest and most experienced social enterprises' support agency. Under CEIS: Young Enterprise Scotland (YES) is a registered charity, which runs a variety of enterprise programmes for <u>young people aged 5 to 30</u> in primary and secondary schools, Further Education colleges, prisons, secure & residential units and community groups.
Germany	<b>Social Impact Start</b> <a href="http://socialimpact.eu/">http://socialimpact.eu/</a>	No age limit	Social Impact Start which is enabled by SAP and government-funded by the Federal Ministry of Family Affairs, Senior Citizens, Women and Youth (BMFSFJ).

*Source: summarised by authors*

## 6. DISCUSSION

If we have to draw a mental picture of a social entrepreneur what kind of a person he or she could be? Perhaps an individual who has lived and seen life as it is and has understood that enormous richness would not make a man happy, whereas helping those who are in need can be become a reward and the purpose of life. Most probably, this person has dealt with similar issues and sufferings himself/herself or his/her relatives, close friends, thus for him/her these are not only words but unslept nights, lost years and ruined lives. Having faced and overcome hardships he or she has firmly decided to facilitate possible complexities for others by creating viable solutions. On average, the age of social entrepreneurs when they decide to establish a social enterprise is around forty. As a rule, he or she has gained solid work experience in the mainstream business and is opportunity driven to set up a social enterprise that would benefit the society first and at the same time possessing enough knowledge and prior experience in management to handle the sustainable development of a business.

Such success stories of leading social entrepreneurs are numerous in Ashoka and Schwab foundations' social entrepreneurship platforms proving the assumption that in order to achieve this dual goal mix of social and economic efficiency a social entrepreneur should be mature enough with necessary prior work experience and passion to help people seeing it as the major goal but at the same time not forgetting to maintain sustainable development of a social enterprise. Therefore, the authors consider that initiatives which support social enterprise establishment should not set too tight age limits on who might be engaged into them.

Though the authors consider that a further research into this issue would be beneficial incorporating more statistical data, which is not available at present since it is one of the limitations of the study. In-depth statistical analysis of correlation between social entrepreneurs age and enterprises sustainability. The main findings on social entrepreneurs'

age answer the main research question, thus, proving that there should not be any limitation regarding social entrepreneurs' age and support system.

## CONCLUSIONS AND RECOMMENDATIONS

Firstly reading and analysing the success stories of the social entrepreneurs from different countries the authors have tracked the common tendency that a deep, well-thought and conscious motivation to become a social entrepreneur as a rule is built through years of work experience in a certain field and profound knowledge of a specific area. Then, following the inner motivation to work for the good of a society by solving social issues, which in most cases he or she has personally dealt with and reinvesting profit, a person decides to establish a social enterprise. Meanwhile, conceptually down-to-earth knowledge and *previous experience in the mainstream business* of a social entrepreneur *contribute considerably to the business sustainability of a social enterprise*.

Secondly, the authors have provided the proof to the assumption that people over 30 should be included into the target group for being engaged into social entrepreneurship representing so called mature social entrepreneurs.

Thirdly, the Latvian public policies regarding the development of social enterprises' start-ups should take into consideration the projected business sustainability of these enterprises and assess thoroughly the *capacity of teams* who would like to establish them.

Fourthly, for social enterprises besides the social impact which is a primary one is important to stay financially sustainable and here work and/or business experience in mainstream enterprises can help a lot to avoid bankruptcy or just rely only on grants.

Fifthly, data on various support initiatives' quantitative and qualitative results of social business development (number of employees, taxes paid, registered trademarks, turnover, etc.) is not available or is limited. Thus, any conclusions of initiatives' efficiency regarding the age limit could not be made.

The further research could be conducted to compare results of social entrepreneurship support initiatives with respect to the age limit in order to access social business sustainability and the efficiency of financial resources used.

## REFERENCES

1. Adams, J., Robinson, P. and Vigor, A. (2003) 'A new regional policy for the UK', IPPR, London.
2. Ashoka foundation, Innovators for the public, Retrieved 12.03.2015. from: <https://www.ashoka.org>
3. Austin, J., Stevenson, H., & Wei-Skillern, J. (2006). Social and commercial entrepreneurship: Same, different, or both? *Entrepreneurship Theory and Practice*, 30 (1), 1-22.
4. Birch, K. and Whittam, G. (2006) 'The role of the social economy and social enterprise and social entrepreneurship in sustainable regional development', Discussion Paper 12, July, Centre for Public Policy for Regions, Glasgow and strathclyde 12 July.
5. Borzaga, C., and Defourny, J. (2001). Social enterprises in Europe: a Diversity of Initiatives and Prospects. In Borzaga, C., and Defourny, J., (Eds.), *The Emergence of Social Enterprise* (pp. 350-367). London: Routledge.
6. Cochran, P. L. (2007). The evolution of corporate social responsibility. *Business Horizons*, 50 (2), 449 - 454.
7. Dees, J. G., & Anderson, B. B. (2003). For-profit social ventures. *International Journal of Entrepreneurship Education*, 2 (1), 1-26.
8. Dees, J.G. (2001) *The Meaning of Social Entrepreneurship*. Stanford, CA: Stanford Business School.
9. DTI (2002) 'Social enterprise: a strategy for success', DTI, London.
10. Fraser, L., McKenna, K., Turpin, M., Allen, S. and Liddle, J. (2009), "Older workers: an exploration of the benefits, barriers and adaptations for older people in the workforce", *Work: A Journal of Prevention, Assessment and Rehabilitation*, Vol. 33, pp. 261-272

11. Hart, M., Anyadike-Danes, M. and Blackburn, R. (2004), "Spatial differences in entrepreneurship: a comparison of prime age and third age cohorts", paper presented at The Institute for Small Business Affairs 27th National Conference, Newcastle.
12. Kate V. Lewis, Elizabeth A. Walker, (2013) "Third age self-employment: a business assistance perspective", *Journal of Small Business and Enterprise Development*, Vol. 20 Iss: 2, pp.399 – 419
13. Latvia National Development Plan 2014-2020 (Latvijas Nacionālais attīstības plans 2014.-2020. gadam), Retrieved 15.05.2015. from [http://www.pkc.gov.lv/images/NAP2020%20dokumenti/20121220\\_NAP2020\\_Saeimā\\_apstiprināts.pdf](http://www.pkc.gov.lv/images/NAP2020%20dokumenti/20121220_NAP2020_Saeimā_apstiprināts.pdf)
14. Nyssens, M. (2006). *Social enterprise - at the crossroads of market, public policies and civil society*. London/New York: Routledge.
15. Parsons , R. A., (2015) "The impact of age on innovation", *Management Research Review*, Vol. 38 Iss: 4, pp.404 – 420
16. Pearce, J. (2003) *Social Enterprise in Anytown*. London: Calouste Gulbenkian Foundation.
17. Peattie, K. and Morley, A. (2008) 'Social enterprises: diversity and dynamics, contexts and contributions – a research monograph, ESRC Centre for BRASS, Cardiff.
18. Platman, K. (2003), "The self-designed career later in life: a study of older portfolio workers in the UK", *Ageing & Society*, Vol. 23, pp. 281-302
19. Prabhu, G. N., (1999) "Social entrepreneurial leadership ", *Career Development International*, Vol. 4 Iss: 3, pp.140 – 145
20. Schwab foundation for social entrepreneurship, Retrieved 12.03.2015. from: <http://www.schwabfound.org/content/about-us>
21. Social Business Initiative AGE UNLIMITED, Retrieved 12.04.2015 from <http://www.nesta.org.uk/>.
22. Social Business Initiative CEIS , Retrieved 12.04.2015 from <http://www.ceis.org.uk/case-studies/>.
23. Social Business Initiative Jeun'ESS initiative, Retrieved 12.04.2015 from <http://www.jeun-ess.fr/>.
24. Social Business Initiative JUST ENTERPRISE, Retrieved 12.04.2015 from <https://www.justenterprise.org/>
25. Social Business Initiative Social Impact Start, Retrieved 12.04.2015 from <http://socialimpact.eu/>.
26. Social Business Initiative SOCIFACTION, Retrieved 12.04.2015 from <http://www.socifaction.com/>.
27. Social Business Initiative UnLtd , Retrieved 12.04.2015 from <https://unltd.org.uk/path>.
28. Tempest, S., Barnatt, C. and Coupland, C. (2002), "Grey advantage: new strategies for the old", *Long Range Planning*, Vol. 35, pp. 475-492.
29. Thompson, J., Doherty, B., (2006) "The diverse world of social enterprise: A collection of social enterprise stories", *International Journal of Social Economics*, Vol. 33 Iss: 5/6, pp.361 – 375
30. Thompson, J., Alvy, G., Lees, A., (2000) "Social entrepreneurship – a new look at the people and the potential", *Management Decision*, Vol. 38 Iss: 5, pp.328 – 338
31. Thompson, J.L. (2002). The world of the social entrepreneur. *The International Journal of Public Sector Management*, 15 (5), 412-431.
32. Vega, G. and Kidwell, R.E. (2007) 'Towards a typology of new venture creators: similarities and contrasts between business and social entrepreneurs', *New England Journal of Entrepreneurship*, 10 (2): 15–28.
33. Wilkinson, C., Medhurst, J., Henry, N., Wihlborg, M. (2014). A map of social enterprises and their eco-systems in Europe: Executive Summary. A report submitted by ICF Consulting Services, European Commission, 6 p.
34. World Council for Economic Development (WCED) *Our common future*. Oxford: Oxford University Press, 1987 p. 43.

## METHOD FOR MEASURING THE EFFECTS OF FIRMS' RESTRUCTURING PROGRAM

**Tadeusz Wascinski,**

*prof. Economics, Faculty of Management, Warsaw University of Technology, Warsaw,  
Poland*

*e-mail: [twascinski@wp.pl](mailto:twascinski@wp.pl)*

**Katarzyna Anna Wojcik**

*dr. Economics, Faculty of Management, Warsaw University of Technology, Warsaw, Poland*

*e-mail: [katarzyna.anna.wojcik@gmail.com](mailto:katarzyna.anna.wojcik@gmail.com)*

### **Abstract**

The application of statistical methods in connection with the systematized knowledge of the restructuring program in a significant way reinforces the efficiency of the implemented restructuring processes. The objective of this paper is to compare several statistical methods and to reveal the possibilities of their application in measuring the effects of the implemented restructuring programs in firms. The examples shown refer to a very thorough analysis of the case study of Volkswagen, where quarterly results covering the period of 10 years were examined. Statistical method of multiple regression was applied in the calculations and additionally there were performed calculations with the use of the SPSS 20 feature for ten models, for three time intervals on a quarterly basis (48 periods). The obtained results confirmed the results that were acquired when studying regression.

Keywords: statistical methods, firm's value, concern reports, effects of the restructuring program

JEL classification: C13, C22, G32, G30, G34, O31

### **1. INTRODUCTION**

In the contemporary concepts in the area of planning, organizing and settling the restructuring processes, we are looking for new ideas and solutions for the way of managing changes in a firm. A comprehensive approach to seek new ideas is embraced by the methods of multidimensional statistics when measuring the effects of the restructuring program. Monitoring and analysis including the process of forming conclusions are of crucial importance for the rise in a firm's competitiveness, its development and market value. Also "the life cycle of a company, firm specific characteristics and type of business environment will have impact on capital structure" (Wood, 2004; Boateng, 2003 in Marimuthu, M., 2009, p.127).

The application of new ideas and solutions in the process of measuring the effects of the restructuring program is a fundamental question for survival and aspiration for the maximisation of business profit. There are many methods for measuring the effects of the restructuring program. Hence, the question arises: whether the application of statistical methods for measuring the effects of the restructuring program, in reality, has an impact on the efficiency assessment of this measurement and will it have a pragmatic result? This question seems very significant because each instrument that helps in a real way generate new solutions, contributes at the same time to the increase in the firm's performance and by means of the above, also to the optimization of the implemented processes as well as to the development and functioning of a firm in a competitive environment.

It is crucial whether the existing statistical methods may support effectively the measurement of the restructuring processes and whether their application may prove useful in practice when employed by a firm. The use of statistical instruments that in fact support the measurement of

the restructuring effects accounts for a new trend of measuring the restructuring effects. The application of statistical instruments that rationally support the measurement of the restructuring effects accounts for a separate tendency when taking these measurements.

The presented method for measuring the effects of the restructuring is a proposal for an approach to the research issue, which is the economic success of the restructuring. On the basis of the management theory, the developed method provides a tool to support decision-making processes by contributing to the function of controlling the economic and financial effects of the restructuring processes carried out in large transnational automobile corporations. Therefore, the issue on the restructuring programs was presented and analyzed in the context of new solutions for the analysis and evaluation of the restructuring processes implemented by large automobile corporations, which occupy a key position in the market.

Volkswagen is an example of a global corporation in the automotive branch and in its restructuring actions it manages to achieve great success, which has been confirmed by good results gained recently. Volkswagen is one of the leading in the world and largest in Europe car manufacturers (Wojcik K., 2014, p. 7).

## 2. EMPIRICAL METHODOLOGY / EMPIRICAL SPECIFICATION

Empirical research on the firm's value (both before and after the implementation of the restructuring processes) by using statistical methods ought to include a firm's complete organizational and financial performance. With this end in view it is significant to use such statistical methods that may be applied on the basis of generally available financial results of concerns (annual, quarterly reports). It will allow long-term observation of a firm's performance over a freely chosen period of time. Such a function may be performed by profitability ratios, financial (standing) liquidity as well as methods of business valuation, which will be presented selectively in this paper.

The following ratios, among others, are included in the analysis of a firm's financial standing (Brigham E.F., Houston J.F., 2004, p.78-88): ROA (*Return on Total Assets*) represents return on total assets and determines the ratio of net income to total assets.

ROE (*Return on Equity*) stands for the rate of return on equity capital. The higher the level of this ratio, the greater the efficiency of the capital employed. EPS (*Earnings per Share*) represents the earnings per share. The growing value of this ratio means the higher the market price of equity. Also Gross profit margin (*gross profit margin*) and Net profit margin (*net profit margin*). Receivables turnover ratio allows determining the average time of making payment by deliverers. QR (*Current Ratio*) illustrates the ratio of current assets to current liabilities.

Other profitability coefficients encompass also the following: ROI the return on investment and ROCE the return on capital employed.

Great importance when calculating the restructuring effects is attached to statistical methods and among others, first of all to the regression modelling, which serve as the basis for such calculations. The choice of the form of the model may rely on earlier results (Everitt B.S., 1998, p. 281).

In this paper there will be employed an estimated linear regression model with one explanatory variable, which is also used for statistical calculations. Form of the model (Schlittgen R., 1997. p. 420):

$$y_t = \beta_0 + \beta_1 x_t + \varepsilon_t, \quad t = 1, 2, \dots, n, n > 2 \quad [1]$$



Residual standard deviation is calculated in the following way:

$$S_e = \sqrt{\frac{1}{n-k-1} \cdot \sum_{i=1}^n e_i^2} \quad [ 2 ]$$

Residual standard deviation represents by how much the observed response variable values differ on the average from the theoretical values of the variable specified in the model.

Coefficient of determination  $R^2$  :

$$R^2 = \frac{SSR}{SST} = \frac{\sum_{i=1}^n (\hat{y}_i - \bar{y})^2}{\sum_{i=1}^n (y_i - \bar{y})^2} \quad [ 3 ]$$

Provides information of what part of the entire variability of the response variable has been explained by the model. Coefficient of indetermination  $\phi^2$  :

$$\phi^2 = \frac{SSE}{SST} = \frac{\sum_{i=1}^n e_i^2}{\sum_{i=1}^n (y_i - \bar{y})^2} = 1 - R^2 \quad [ 4 ]$$

Provides information of what part of the entire variability of the response variable has not been explained by the model.  $R = \sqrt{R^2}$  [ 5 ]

Since  $R = r_{y\hat{y}}$  that is why the coefficient of multiple correlation specifies to what degree the empirical and theoretical values of the response variable are correlated with each other.

Studies of the significance of the model parameters by determining a confidence interval for a structural parameter  $(1-\alpha) \cdot 100$ -percent confidence interval for the parameter  $\beta_j$  is as follows:

$$(b_j - t_{\alpha, n-k-1} \cdot S_{b_j}, b_j + t_{\alpha, n-k-1} \cdot S_{b_j}), \quad j = 0, 1, \dots, k. \quad [ 6 ]$$

In practice, the important thing is whether the constructed confidence interval contains zero. If 0 belongs to the confidence interval, then a given structural parameter of the model is statistically insignificant. The last element of the statistical research is the interpretation of the standing parameter evaluation with the explanatory variable (Bielecka A., 2005, p. 262-278).

As J.M. Wooldridge (Wooldridge J.M., 2011, p. 12-15) states as regards panel data models, where there are few time periods, that one may apply cross section. With different time intervals per unit and „fixed effects” - where unobserved heterogeneity is estimated with the population parameters - the results are common. (Example - Jones and Schurer 2011).

Cobb-Douglas innovative approach to the production function is emphasized by C. Tronconi and G.V. Marzetti after Lev and Radhakrishnan (2005) as well as De and Dutta (2007) who estimate this function together with the organization capital as an additional function sustaining the division of the common capital of the organization specifically to each firm. The formula of calculating the organization capital is made up of general and administrative sales costs. It includes some expenses that may increase the organization

capital such as: employee training costs, brand activities promotion costs, payments to systems and strategy consultants and IT expenses.

They indicate the Cobb-Douglas production function as an important example, first of all, to American firms, however, depending on the firm with or without R&D. To recapitulate: according to Lev and Radhakrishnan (2005) and De and Dutta (2007) it is worth referring to their research because it reveals that specific solutions have a positive influence on performance and, depending on the firm, the organization capital has the highest elasticity (Tronconi C., Marzetti G.V., 2011, p. 141-143).

Also, it is worth applying Altman's Z-score method which is the most commonly used measure of the financial likelihood of organization survival on the market. Altman was the first to use multiple discriminate analyses in order to anticipate bankruptcy. The function of Altman's Z-score model:

$$Z = 1,2X_1 + 1,4X_2 + 3,3X_3 + 0,6X_4 + 1,0X_5 \quad [ 7 ]$$

where:

X1 - working capital / total assets

X2 - retained earnings / total assets

X3 - earnings before interest and taxes / total assets

X4 - market value of equity / book value of total liabilities and

X5 - sales / total assets.

Altman claims that firms whose Z-score is higher than 2.99 are clearly included in the non-bankruptcy category, whereas firms whose Z-score is lower than 1.81 clearly show the bankruptcy tendency. Firms whose Z-score is between these two values are considered to be in danger of going bankrupt although they are not yet bankrupt (Carton R.B., 2006. p. 94).

Market-based measures are the following:

- return to shareholders,
- market value added,
- holding period returns,
- Jensen's alpha,
- Tobins's Q.

To calculate these values a firm's market valuation is required and it is available only for publicly-traded companies. It has already been mentioned at the beginning of this paper. Return to Shareholders - RTS represents the return on total financial value of the share owned in a given period. RTS includes both common equity appreciation and the distribution to the shareholders in the form of dividends. The formula is as below (Carton R.B., 2006. p. 95):

*Total shareholder return = Rate of return over the period of investment + Dividend rate*

where:  
*Rate of return over the period of investment = share market price at the beginning of a given year - share market price at the end of a given year / share market price at the beginning of a given year.*

Robinson (1995) found that RTS assured the highest research effects when measuring the efficiency of new undertaking among 10 researched variables. He did not measure, however,

RTS over the same time period for every firm. As a result, RTS values embrace both specific performance effects as well as general outcomes of the market operation. General conclusion resulting from his research on RTS remains an open question (Carton R.B., 2006. p. 96).

Market Value Added is a measure of the long-term economic profit creation of a firm (Barney, 2002). It is calculated as the firm enterprise value (market value of equity plus the market value of debt) less the economic book value of the organization (book value of equity and the book value of debt). The *MVA* formula (Carton R.B., 2006. p. 97):

*Market value added = Market current value of equity - Book value of equity invested*

where:

*Market value of equity = Market value of common stock*

*+ Market value of preferred stock*

*+ Market value of a firm's short-term debt*

*+ Market value of a firm's long-term debt*

and

*Economic book value = Book value of equity + Book value of debt.*

Another measure, Jensen's Alpha, is adjusted to the risk of performance measure, which is calculated as the return to shareholders in excess of the cost of equity capital, as the use of the capital asset pricing model (*CAPM*). The formula (Carton R.B., 2006. p. 98):

$$\alpha_p = \bar{r}_p - [r_f + \beta_p(\bar{r}_m - r_f)], \quad [8]$$

where:

$r_p$  = expected rate of return

$r_f$  = risk-free rate

$\beta_p$  = Beta coefficient

$r_m$  = expected rate of return on changes

Tobin's Q method is defined as the ratio of a firm's market value (capital value on the stock market) to the replacement value of the book equity. The formula is given below:

*Tobin's Q = firm's market value / replacement value of the book equity*

Chung and Pruitt (1994) have implied that when calculating a firm's actual values - the book value of short-term and long-term debt and the value market of the debt, is not often available (Carton R.B., 2006. p. 99).

### 3. ECONOMIC VALUE MEASURES

Residual Income RI is a measure that adjusts net income subtracting a charge for the cost of capital employed in the organization. The cost of capital is equal to the beginning book value of the capital (*BV*) times the cost of capital (*k*). RI is defined by the following formula:

$$RI = NI_t - (k_t \times BV_{t-1}) \quad [9]$$

The calculation provides the economic profit generated by the organization. Another way to determine residual income or economic profit is the difference between the return on invested

capital and its WACC-times the amount of capital invested by the organization (Carton R.B., 2006. p. 100).

$$\text{Economic profit} = \text{invested capital} \times (\text{ROIC} - \text{WACC}) \quad [10]$$

where:

ROIC = return on invested capital

WACC = weighted average cost of capital

As regards traditional indicators of performance measurement: “the most of Lithuanian companies use absolute values (such as revenue, net profit, profit before taxes) in order to evaluate performance results of a company. Besides them, efficiency of activity is measured using return on investment (ROI), return on capital and other financial ratios. Ratios are more informative than absolute values, since they outline performance efficiency more precisely. Foreign, as well as Lithuanian scientists also apply financial ratios to evaluate performance of a company or the effect of different decisions (including restructuring) on performance results” (Christauskas and Kazlauskienė, 2009, Sakiene and Puleikiene, 2009, Charitonovas, 2004; Leepsa and Mishra 2012; Lukason 2012, Fedier 2011 in Stankeviciene J., 2012, p. 1290).

#### 4. ESTIMATION RESULTS / DATA

As an example of development one may provide such concerns whose actions help to generate innovative ideas in the field of, among others, the restructuring program. Seeking innovative solutions for measuring the restructuring processes, to some extent, serves as the foundation of innovative development of each firm. New possibilities are searched for in many spheres of life, and in particular in respect of the following (Tidd, Bessant, Pavitt, 2005, p. 349 - 362):

- the observation of the tendency of changes and market expectations,
- present and predicted technological possibilities in a given scope,
- conducted research,
- constant learning from others,
- the observation and anticipation of the competition actions,
- enabling cooperation among employees inside the firm.

Financial statements supply information on a firm’s financial standing at present as well as contain data on the results of its performance over a particular and past period of time. However, the actual value of the financial statements is that they may contribute to the prediction of future earnings and dividends as well as to the anticipation of future conditions as the basis for planning operations that will foster the improvement of the firm’s future results. The use of financial ratios will help to assess the financial statements (Brigham E.F., Houston J.F., 2004, p.77).

To achieve the research objectives of this paper, we had to choose financial figures, which were used to evaluate the effects of the restructuring processes. The foundations of the methods to measure the effects of restructuring are as follows (Wojcik K., 2014, p. 102):

- basic premise is the principle: "You cannot manage something you cannot measure" (Davila T., Epstein M., Shelton R., 2006. p. 19; Kaplan R., Norton D. 2006, p. 13),
- primary purpose of the Volkswagen Group as type-profit organization is to generate a profit,

- for constructing the method of measuring the effects of restructuring choose the measurable data that characterizes the effects of the restructuring processes implemented in Volkswagen,

- when selecting financial figures seek those that allow you to build linear econometric models and which represent the data which values are obtained exclusively by aggregating the value of the same kind, without using other mathematical operations, methods, techniques and computational tools (Wojcik K., 2014, p. 105).

In addition to these foundations the literature recommends the use of other principles which are designed to achieve the effective measurement system. These principles have been applied as the rules to build such method (Davila T., Epstein M., Shelton R., p. 177-178),

- measurement system should be flexible, adapted to the appropriate organizational level, which is being researched,

- measure only necessary quantities which are measurable. Multiplying the number of the projection ranges used in the measurement system increases the difficulty in formulating clear conclusions arising from the results of calculations (Wojcik K., 2014, p. 106).

The data given below comes from the calculations on the basis of annual reports of the Volkswagen concern. The calculations were made on the basis of the data from 2004-2008. This is a period of an intensive restructuring program of the concern. (Table 1).

Table 1

### Firm's financial standing

No.	Ratio	Value	2000	2001	2002	2003	2004	2005	2006	2007	2008
1.	ROA	unit	2,824	2,802	2,385	0,946	0,524	0,820	2,013	2,836	2,792
2.	ROE	unit	12940,594	12242,678	9874,525	4677,824	2868,313	3624,595	5445,545	3998,060	3434,432
3.	EPS	unit	0,835	0,916	0,811	0,349	0,218	0,348	0,958	1,415	1,590
4.	gross profit margin	unit	4,474	4,980	4,584	1,803	1,223	1,808	1,710	6,008	5,806
5.	net profit margin	unit	3,145	3,305	2,987	1,318	0,783	1,176	2,622	3,785	4,119
6.	receivables turnover ratio	unit	115,045	199,163	109,620	206,628	199,775	204,243	186,146	187,928	207,830
7.	QR	unit	1,150	0,567	1,015	0,556	0,350	0,329	0,346	0,360	0,326

Source: Own study on the basis of annual reports of the VW concern.

In the table there have been presented the analysis ratios of the firm's financial standing. ROA represents the ratio of net income to total assets from the lowest value 0.524 of the unit in 2004 to the highest value 2.836 of the unit in 2007. ROE the return on equity simmered down considerably in 2003 but in 2004 this ratio increased distinctly and one may notice certain stability between 3624 and 5445 of the unit. In turn, very noticeable improvement of EPS (earnings per share) followed in the years 2006-2008 (between 0.958-0.159 of the unit), while during 2003-2004 the ratio value reached only 0.218-0.348. The growing value of this ratio means the higher market price of equity. Gross and net profit margin developed in a similar way. Receivables turnover ratio determines average time of making payment by deliverers and at this point it is easy to perceive the prolongation of time in the course of years from the minimum value 115 of the unit in 2000 to the maximum value 207 of the unit in 2008. Current ratio QR illustrates the ratio of current assets to current liabilities and one may observe a considerable drop in this ratio from 2004 (0.35 of the unit) to 2008 (0.33 of the unit), in 2000 the ratio equalled 1.15 of the unit and in 2002, 1.015 of the unit.

In turn, estimated linear regression models with one explanatory variable served as the method of measuring the restructuring effects. The results of estimates of regression models are revealed in table 2.

Table 2

**The results of estimates of regression models**

The whole period - Division into quarters	Estimation of models	$R^2$	n quarters included in the research	independent variable [x]	dependent variable [y]
2000-2011	$\hat{y}_t = 219,8567 + 0,0482x_t$ [58,4136] [0,0022]	0,9127	48	revenues from sales	vehicles production
2000-2011	$\hat{y}_t = -44,8703 + 1,0303x_t$ [34,8247] [0,0232]	0,9770	48	sales	vehicles production
2000-2011	$\hat{y}_t = -712,2007 + 6,2244x_t$ [201,3312] [0,5700]	0,7216	48	employment	vehicles production
2000-2011	$\hat{y}_t = -1888,82 + 18,8990x_t$ [1291,8651] [0,8616]	0,9127	48	vehicles production	revenues from sales
2000-2011	$\hat{y}_t = -3294,6607 + 19,8506x_t$ [1231,4805] [0,8224]	0,9268	48	sales	revenues from sales
2000-2011	$\hat{y}_t = -19611,8349 + 129,7742x_t$ [3362,4688] [9,5199]	0,8015	48	employment	revenues from sales
2000-2011	$\hat{y}_t = 5,2922 + 2,7881x_t$ [191,7949] [1,111]	0,1203	48	employment in the country	production in the country
2000-2011	$\hat{y}_t = -242,5466 + 6,9006x_t$ [103,3961] [0,5801]	0,7546	48	employment in the foreign country	production in the foreign country

Own study on the basis of annual reports of the VW concern.

**Symbols:**

$\hat{y}_t$  value of the response variable determined on the basis of the model

$x_t$  value of the explanatory variable

$R^2$  coefficient of determination

n quarters included in the research

numbers in brackets standard errors in the parameters estimate

In table 2 one can trace the forming of the dependency of the vehicles production upon the revenues from sales over the following time period 2000-2011 quarterly. On the basis of the amount of the coefficients of determination it has been claimed that over the analyzed years within the range of 9% in 2000-2011 of the variability of the vehicles production was explained by the average value of the revenues from sales. On the basis of the determined parameters evaluation one may state that the growth in the average production value by one unit was accompanied by the growth in the revenues from sales to the highest degree by 0.048

of the unit. Since 2004 an increasing tendency of the influence of the production upon the revenues from sales has been observed. One can see it clearly in 2005 (0.031 of the unit) as well as in 2006-2008 (0.049) and in 2009-2010 (0.061). Therefore, a positive influence of the implemented restructuring processes over 2004-2008 has been confirmed. Similar growing tendencies over 2004-2008 reveal other dependencies.

Dependent variables [y] were estimated in accordance with different modes of dependency. In the research, the focus was put, in particular, on the statistical significance of the parameter with the explanatory variable. The quality of these models was estimated in terms of the statistical significance of model structural parameters for the researched phenomenon. The obtained results of the entire variability of the response variable have been explained by the model. They are statistically essential and present important results. This proves that the calculations by means of statistical methods on the basis of a firm's financial results are a valuable source of economic information.

Table 2 indicates statistically significant models which provide crucial results for this research process. On the basis of the determined parameter estimates there were specified the most important relationships of the studied variables. These include statements that the growth in vehicles production was accompanied by the increase in sales, unequivocal growth in the revenues from sales, increase in employment (mainly abroad) as well as increase in material expenditures. The increase in costs of sales was accompanied by the growth in vehicles production, sale of cars, growth in the revenues from sales and gross income. Increase in sale of cars was accompanied by the increase in employment, vehicles production and manufacturing costs. The growth in the revenues from sales contributed to the increase in employment, vehicles production and sales. The increase in gross profit was accompanied by the increase in employment, sales, revenues from sales and assets. The growth in the revenue from shares contributed to the increase in receivables arising from the financial activity, vehicles production, sale of cars, total liabilities and increase in the financial result.

Statistical method of multiple regressions was applied in the calculations and additionally there were performed calculations with the use of the SPSS 20 feature for ten models, for three time intervals on a quarterly basis:

- A. 2000 - 2011 (48 periods),
- B. 2000 - 2008 (36 periods),
- C. 2004 - 2008 (20 periods).

Table 3

**Variables in the calculations with the SPSS 20 feature**

number	dependent variable [y]	independent variable [x]	variables	division into quarters / time period 2000-2011
1	2	3	4	5
1	employment in the country	production in the country	production in the country - employment in the country	close
2	total employment / in the foreign country	production in the foreign country	total employment - production in the foreign country	very close
3	sales costs	total vehicles production	total vehicles production - sales costs	close
4	sales costs	employment in the country	employment in the country - sales costs	close
5	total vehicles production	employment in the foreign country	Employment in the foreign country - total vehicles production	very close
6	total vehicles production	revenues from sales	revenues from sales - total vehicles production	very close
7	sales	production in the foreign country	production in the foreign country - sales in the country	close
8	sales	employment in the country	employment in the country - sales in the foreign country	close
9	after tax profit margin	sales in the country	sales in the country - after tax profit margin	poor
10	after tax profit margin	production in the foreign country	production in the foreign country - after tax profit margin	very close

*Source: Own study on the basis of annual reports of the VW concern.*

Calculations were made for a single response and explanatory variable (simple linear regression) for quarterly periods. Intervals were specified, correlations were calculated and scatter plots were drawn up (the so-called adjustment graphs).

For the analysis the following scale of correlation (relationship) - value  $|r|$  - *Pearson* was adopted in this paper:

lack of correlational relationship	0,000
poor	0,001- 0,250
average	0,251 - 0,500
close	0,501 - 0,750
very close	0,751 - 0,999
complete	1,000

Calculations with the use of the SPSS 20 feature. (scatter plots, statistical method of multiple regression, Pearson correlation, statistics Durbin-Watson) feature confirmed the correlation between the dependent variables.

Production in the country and employment in the country showed a close correlational relationship.



The results of the selected variables demonstrate the success of the restructuring process in the concern and prove that the above mentioned restructuring process has had both a short- and long-term impact.

## CONCLUSIONS

The restructuring program conducted in the Volkswagen Group in 2004-2008, was unarguably multidimensional. The program brought greater results than expected. The restructuring processes allowed us to identify strategic objectives oriented to survival, development, maximizing profits and gaining the competitive advantage. In terms of the survival associated with the crisis, nowadays the concern is one of the leading and largest European manufacturer of the passenger cars and vans.

Carried out- it is worth mentioning that the restructuring programs helped to improve performance mainly in the area of total vehicles production, production in the foreign country and revenues from sales.

The goals of this paper have been achieved, and they were to demonstrate that Volkswagen carried out many restructuring processes at the same simultaneously and achieved the objectives of these processes.

Measurement, analysis and assessment of the dynamics of changes on the level of effectiveness should be carry out in a systematic manner, as a permanent element of controlling performance in companies remaining subject to restructuring. The method of measuring the effectiveness of restructuring should be applied in the measurement, analysis and evaluation of complex restructuring processes carried out in enterprises, the organizational structure of the group. The versatility of the method manifests in the fact that to construct it we can apply financial figures available in every enterprise. Furthermore, there is possibility to analyze and evaluate at any time interval the data and that can be minute-long, hourly, daily, weekly, monthly, quarterly or yearly. On the basis of management theory, the developed method provides a tool to assist decision-making and helps to control the economical effects of restructuring processes carried out in large transnational car corporations (Wojcik K., 2014, p. 97-98, 136-137).

The aim of this paper is to indicate on the basis of available data (annual, quarterly reports and other documents) the significance and grounds for the application of statistical methods in measuring the restructuring effects. The obtained results show that the main determinant for the efficiency of the data analysis is the selection of an appropriate research method and correct interpretation of the data. These methods may serve as an innovative approach to measuring the restructuring effects both in big concerns as well as in small firms.

## REFERENCES

1. Bielecka A., Statystyka w biznesie i ekonomii. Teoria i praktyka. [Statistics in business and economy. Theory and practice] Wydawnictwo Wyższej Szkoły Przedsiębiorczości i Zarządzania im. Leona Koźmińskiego, Warszawa 2005. p. 262-278.
2. Boateng, A., Determinants of capital structure: Evidence from international joint ventures in Ghana, *International Journal of Social Economics*, 31 (1/2), 2003, p. 56-66.
3. Brigham E.F., Houston J.F., *Fundamentals of Financial Management*, Thomson, South-Western 2004. p. 77-88.
4. Carton R.B., *Measuring Organizational Performance. Metrics for Entrepreneurship and Strategic Management Research*. Edward Elgar Publishing, Inc. MA, USA, 2006. p. 94-100.
5. Charitonovas, V., Imoniu bankroto prevencija. Metodologinis aspektas, *Organizaciju vadyba: sisteminiaityrimai*. Nr. 30, 2004.
6. Christauskas, C., Kazlauskienė, V., Moderniu veiklos vertinimo sistemu itaka imones valdymui globalizacijos laikotarpiu, *Ekonomika ir vadyba*. Nr. 14., 2009.

7. Davila T., Epstein M., Shelton R., *Making Innovation Work: How to Manage It, Measure It, and Profit from It*, Wharton School Publishing, Upper Saddle River, NJ, USA, 2006. 19, p. 177-178.
8. Everitt B.S., *The Cambridge Dictionary of Statistics*. Cambridge University Press 1998, p. 281.
9. Fieder, J., *The art of restructuring debt under pressure*. Financial restructuring of Oerlikon, 4th CFO, 2012, Summit Emerging Europe & CIS. Internet Access: [http://www.cfo.,insight.com/fileadmin/Events/CFO\\_Summit/Review/4th/p\\_p/CEE2011-Fedier-Keynote.pdf](http://www.cfo.,insight.com/fileadmin/Events/CFO_Summit/Review/4th/p_p/CEE2011-Fedier-Keynote.pdf). [Access on 06.06.2012].
10. Kaplan R. S., Norton D. P., *Strategy Maps, Converting intangible assets into tangible outcomes*, Harvard Business School Press, Boston, Massachusetts 2004, p. 13.
11. Leepsa, N. M., Mishra, Ch. S., *Post merger financial performance: a study with reference to select manufacturing companies in India*, International Research Journal of Finance and Economics. Issue 83. 2012, Internet access: [http://www.internationalresearchjournaloffinanceandeconomics.com/ISSUES/IRJFE\\_83\\_01.pdf](http://www.internationalresearchjournaloffinanceandeconomics.com/ISSUES/IRJFE_83_01.pdf). [Access on 11.06.2012].
12. Lukason, O., *Pre-Bankruptcy Financial Performance of Firms: Do Size and Industry Matter?*, 2nd International Conference on Economics, Trade and Development IPEDR. Vol. 36., 2012, Internet access: <http://www.ipedr.com/vol36/015-ICETD2012-D10004.pdf>. [Access on 12.06.2012.]
13. Marimuthu M., *Corporate Restructuring, Firm Characteristics and Implications on Capital Structure: an Academic View*, International Journal of Business and Management, Vol. 4, No. 1, Jan. 2009, Internet access: <http://www.ccsenet.org/journal.html>. [Access on 25.06.2014], 2009, p. 127.
14. Sakiene, H., Puleikiene, K., *Finansiniu santykiu rodikliu taikymas Ir akciniu bendroviu finansines – ukines veiklos analizeje*, Vadyba – Journal of Management. Nr. 14 (2), 2009. Internet access: [http://www.vlvk.lt/private/Vadybos%20turiniai/Vadyba\\_2\(14\).pdf](http://www.vlvk.lt/private/Vadybos%20turiniai/Vadyba_2(14).pdf). [Access on 26.05.2012].
15. Schlittgen R., *Einführung in die Statistik. Analyse und Modellierung von Daten*. 7 Auflage, R. Oldenburger Verlag Munchen Wien, 1997, p. 420.
16. Stankeviciene J., *Methods for valuation of restructuring impact on financial results of a company*, Economics and Management, 17 (4) ISSN 2029-9338 (ONLINE) ISSN 1822-6515 (CD-ROM), 2012, p. 1290.
17. Tidd J., Bessant J., Pavitt K., *Managing Innovation: Integrating, Market and Organizational Change*. 2005, p. 349 - 362.
18. Tronconi C., Marzetti G.V., *Organization capital and firm performance. Empirical evidence for European firms*. Economics Letters 112 (2011). p. 141-143.
19. Wood, J. S., *Interactions of corporate financing and investment decisions: The financing present value (FPV) approach to evaluating investment projects that change capital structure*, Managerial Finance, 30 (2), 2004, p. 16-37.
20. Wooldridge J.M., *A simple method for estimating unconditional heterogeneity distributions in correlated random effects models*. Economics Letters 113 (2011). p. 12-15.
21. Wojcik K., *Method of evaluation of restructuring processes in an automobile corporation*, Warsaw University of Technology, Warsaw 2014, p. 7, 97-98, 102-106, 136-137.

# REVIEW OF HOUSING MORTGAGE LENDING POLICY PRACTICES IN LATVIA

**Inita Henilane**

*BA School of Business and Finance, K.Valdemara St.161, Riga, LV-1013, Latvia*

*e-mail: [initahenilane5@inbox.lv](mailto:initahenilane5@inbox.lv)*

## **Abstract**

The aim of the research is to evaluate the housing mortgage lending policy development aspects in Latvia.

Research methodology: Analytical research method and comparative research method have been applied to carry out the research.

Findings of the research shows that housing mortgage lending policy system is well arranged and complies with European Union requirements in this field. However the development of housing mortgage lending market during the period after accession to the European Union and up to crisis in 2008 has created negative impact on development of the housing market in post-crisis period until today in Latvia.

Research limitations: In the research there are evaluated housing mortgage system legal and policy aspects and mortgage market trends in Latvia, but not made scientific discussion of the theoretical aspects of mortgage lending system in general.

Originality of the research is that author's find out that the task of government is to develop and implement financial mechanisms for multi-apartment building sector and combining them with the mortgage loans it would be possible significantly improve the housing situation in the country by providing affordable mortgage loans to households for the purchasing, construction and renovation of housing.

Keywords: housing policy, mortgage lending, mortgage lending market.

## **1. INTRODUCTION**

The wish for better life has prompted many people to take mortgage loans in banks, intended especially for this reason, for purchase or renovation, reconstruction or repairs of the dwelling or private house (Research of Economical and Social Situation in the Baltic States: Latvia, 2013).

Furthermore the biggest problem in housing sector in general is unsatisfactory technical condition of multi-apartment buildings, because the most part of all multi-apartment buildings were built during the Soviet period (after 1993 it is built only around 11% of multi-apartment houses), which are characterized by construction technologies incompliance with modern requirements, small living space and other aspects what according to modern requirements require renewal and transformation of housing infrastructure. However, the problems have not yet reached results improving the general housing situation, because there are required significant investments in the long term (Henilane, 2015) and it is impossible to do without the support of the government. Effective housing mortgage lending policy development and implementation play the most important role for improving the housing situation in the state in general.

The subject of the paper is housing mortgage lending policy.

The aim of the research is to evaluate the housing mortgage lending policy development aspects in Latvia.

The research paper is structured in three parts. In the first part there are characterized and analyzed the main aspects of legal acts relating to housing mortgage lending system in Latvia. In the second part there are analyzed the results of the implementation of the housing mortgage policy in Latvia. In the third part there are analysed housing mortgage market development trends: the main problems and positive aspects.

In conclusion are made proposals for the government for the housing policy sector in context with the development of new financial mechanisms for providing affordable loans to households for the purchasing, construction and renovation of housing.

In research paper are applied the analytical research method and comparative research method.

## **2. REVIEW OF THE LEGAL BASIS IF MORTGAGE LENDING SYSTEM**

In general mortgage lending system is characterized with the facts that it ensures long-term crediting, formation of mortgages and issue of bonds. Upon comparing with other lending systems the mortgage lending system is formed by trying to reach maximal balance between active crediting transactions (issue of credits) and passive transactions – re-financing of loans (attraction of new financial resources through assistance of mortgage bonds). In this way the problems related to possible insufficiency of financial resources in long-term are eliminated. Accurate balance between active and passive transactions within framework of mortgage lending system ensures constant and stable attraction of credit resources in long-term, as well as creates the opportunity to decrease the price for credit resources. Mortgage lending system is lending system within framework of which the banks on the base of obtained mortgage (immovable property pledge) issue special publically traded securities – mortgage bonds for coverage of which there are serving mortgage loans issued by the banks (Andrejeva, 2005).

Mortgage lending system aspects has been analysed and discussed by different researchers (Neilands, 2014; Ijevleva, 2014; Mazure, 2012; Lejniece, 2012; Andrejeva, 2005; Dubel, Rothmund, 2011; Friedemann, 2008 etc.) though most of them have basically analysed mortgage lending in relation to real estate or housing aspects.

The Law on Mortgage Bonds is the main regulatory enactment in Latvia what regulates issues related with mortgage lending. Mortgage loan is a loan (credit) what is secured with immovable property pledge (mortgage), registered in European Union member country. Its quantity along with other encumbrances registered for immovable property previously may not exceed 75 percent from market value of immovable property, the composition of which in at least in a half contains value of such building where at least a half of total space may be used for a living, or 60 percent from market value of immovable property of other type (Mortgage Bond Law, 1998).

Besides the Mortgage Bond Law the issue of mortgage loans in Latvia is being regulated by Civil Law, Civil Procedure Law, Credit Institutions Law, Land Register Law, Consumer Rights Protection Law, Solvency Law, and other regulatory enactments.

Civil Law is the oldest regulatory enactment which includes the norms including regulation of provisions, related to:

1. rights in rem to immovable property, including to pledging rights to immovable property, mortgage establishment and extension and discharge of mortgages;

2. rights regarding obligations to immovable property, including provisions regarding warranties, pledging rights, loan contract and loan repayment provisions, and other issues (The Civil Law, 1937).

Civil Procedure Law regulates the general rules of civil proceedings, rules of proceedings in first instance court, court judgments and appellation rules, and other issues relating to the proceedings in connection with failure to repay mortgage loans (Civil Procedure Law, 1998).

Credit Institution Law regulates the rules that apply to operation of credit institutions as well as credit provisions (Credit Institutions Law, 1995).

Land Register Law regulates the rules concerning corroboration of real estate in the Land Register (Land Register Law, 1937).

Consumer Right Protection Law regulates the rules concerning rights of the mortgage borrowers in case of mortgage loan repayment (Consumer Right Protection Law, 1999).

The most topical intended changes in regulatory enactments regarding operation of mortgage lending system in Latvia are associated with changes in relation to “throw away the key” principle or the principle where in case if mortgage borrower is not able to pay for the loan there is an alternative for him to return the pledged property to the bank and to get free from all debt liabilities. Changes in determination of mentioned principle applies only to amendments in the Insolvency Law, Consumers Right Protection Law, Law “On Personal Income Tax” and Law “On Enterprise Income Tax”, which is effective from 1 March 2015.

Taking into account the above mentioned the norm of Insolvency law is cancelled what means that along with 1 March 2015 by selling the property what has served as security the remaining debtor’s liabilities will be cleared along with approval of the auction. Such procedure would be applicable only to cases when in result of debtor’s insolvency his only home will be sold, and it would not be retrospective.

Amendments of Insolvency Law not only exclude “throw away the key” principle, but also change the term for clearance of natural person’s debt. Term for clearance of liabilities will be one year, if the debtor’s total liabilities after the bankruptcy procedure do not exceed 30000 euro; two years, if liabilities are from 30001 euro to 150000 euro, and three years from the announcement of liability clearance if liabilities exceed 150000 euro (Darzina, 2015; Saeima Press Service, 2015).

Along with amendments in Consumer Right Protection Law the “throw away the key” principle is determined as opportunity of selection by the borrower. Lender and consumer may agree in the loan agreement that transfer of security to the lender is sufficient to repay the loan. Lender upon receiving consumer’s loan offers to the consumer two types of loan agreements, one of which provides that transfer of security to the lender is sufficient to repay the loan, while the other one provides a complete consumer’s liability for repayment of the loan. Lender is entitled to apply different provisions for each type of draft loan agreements. In other words, by signing a loan agreement, it will be possible to agree with the creditor already from the beginning whether the performance of liabilities will include “throw away the key” principle. In case of “throw away the key” principle the banks apply higher rate of the first instalment and a higher interest rate, thus decreasing the risk for the banks.

Changes in above mentioned regulatory enactments regarding the implementation of “throw away the key” principle occurred because in September 2014 the credit institutions rejected participation in family housing programme and informed on increase of the first instalment and increase of interest rates arguing that the legislator has not yet evaluated the adverse effects of changes to mortgage lending, in result of which the access to credits will decrease due to increase of the initial payment and interest rates, whereas the decrease of credits will have a negative impact on the economy (Consumer Right Protection Law, 1999; Darzina, 2015).

By analyzing laws and regulations what regulate mortgage lending the author concludes that the latest changes in legislation show that the government more and more attention devotes to consumers’ rights and their protection in the event of mortgage borrowing in order to reduce cases of consumers’ bankruptcy, and thus to ensure their well-being and socio-economic situation in today’s society, at the same time imposing also stronger provisions for consumers in mortgage lending, and thus reducing also the risk for banks.

### 3. THE ANALYSIS OF MORTGAGE LENDING POLICY ASPECTS

The creation of the mortgage lending system was started in the end of 1997 with approval of Mortgage lending system conception. The aim of mortgage lending concept was to justify the need for the creation of mortgage lending system (Cabinet of Ministers of the Republic of Latvia, 1997).

Whereas, in the end of 2012 the management team of mortgage lending system implementation, created by the Ministry of Finance, concluded that mortgage lending system in Latvia in general is well arranged and complies with European Union requirements in this field (Ministry of Finance of the Republic of Latvia, 2012).

Hipoteku banka (Mortgage Bank) which operated in Latvia from 1993 by the end of 2013, and which was the only commercial bank wholly owned by the State during its existence, has had invaluable role in the development of mortgage lending system in Latvia. The Bank actively participated in the development of Latvian mortgage lending system, creation and development of mortgage-backed securities market, as well as in promotion of mortgage-backed securities (The state joint-stock company Altum, 2014).

Hipoteku banka implemented a range of various development programmes in various industries, including in the housing sector – Pilot programme and stage II of Housing development lending programme (hereafter - MAKP II). Within framework of MAKP II there were provided guaranties for housing loans, included to families with children for mortgage loans for the purchase or construction of dwelling (by 31.03.2008 there were issued 177 guaranties for total amount 2,7 million euro for loans in amount of 12,9 million euro); to lessees of denationalized houses and their family members if they use residential premises in denationalized house or in house what was returned to its legal owner, and they have used it by renewal of rights for mortgage loans for the purchase or construction of dwelling (by 31.03.2008 there were issued 4 guaranties for the amount 72 thousand euro for loans in amount of 316 thousand euro), and guaranties to associations of apartment owners for renovation or reconstruction of houses (no guaranty was issued). Regarding issue of guaranties for loans for renovation or reconstruction of multi-apartment houses, the commercial banks indicate that current funding of programme is small and determined fee for issue of guaranties for loans for renovation or reconstruction of multi-apartment houses (2.6 % annually from remaining guaranty) is disadvantageous (substantially higher than for similar services, for example, in Estonia) for apartment owners in multi-apartment houses). Implementation of the programme was terminated in 2010 due to lack of financial resources for further implementation of the programme (Informative report of Cabinet of Ministers, 2008).

Issue of guaranties by Hipoteku bank to commercial banks decreased credit risk and thus promoted development of mortgage lending.

Since 1 January 2014 Hipoteku bank is transformed as development institution by focusing its operation to directions which are important for national economy, and without performing commercial bank's transactions what are being executed by state joint stock company "The Latvian Development Finance Institution ALTUM" (The state joint-stock company Altum, 2014).

The most important funding for arrangement of housing sector is in way of grants is EU funds programme for 2007 – 2013 in framework of heat insulation of multi-apartment houses programme by performing heat insulation for around 850 multi-apartments buildings with total funding 89,20 million euro, and within framework of heat insulation of social residential houses programme by performing heat insulation for around 55 social residential houses with total funding 9,2 million euro, the administration of which is being performed by Investment

and Development Agency of Latvia. Loans were issued by Latvian commercial banks, but 50% of renovation costs were financed from European Regional Development Fund. In this case the residents took the loans in banks and cash flow of residents' payments served as a pledge, and it was not required to pledge the apartments, as well as there was needed support from more than 50% apartment owners for implementation of multi-apartment house renovation project (Regulations of Cabinet of Ministers No.284; Henilane, 2015).

Very important role has implementation of efficient financing model for new programme of EU funds 2014 – 2020 for multi-apartment heat insulation what currently is in development phase, in framework of which the funding in amount of 176,47 millions euro is available, what will be based on mortgage lending principles by giving the support in way of grants from resources of EU funds (the appropriate support mechanism is being specified). It is planned that within framework of new programme the association of apartment owners will apply to ALTUM for receiving a loan on favourable terms, and after reaching certain energy efficiency level after completion of house renovation project it will receive grant by up to 35% of project costs (Regulation project "Energy efficiency measures in residential buildings", 2014).

Within framework of the state support programme families for purchase or construction of dwellings it is planned that from 2015 will be granted around 220 guaranties on guaranty programme implementation in total amount of liabilities what does not exceed 1330 thousand euro, but also attraction of additional funding is planned. The aim of the programme is to provide the state guaranty to families with minor children for purchase or construction of dwelling in order to help with required co-funding - credit the first instalment for mortgage credit (Altum, 2014).

Taking into account the above mentioned the author concludes that mortgage lending has important role in the case of housing crediting. At the same time it should be concluded that financing of multi-apartment building sector in period of EU funds 2007-2013 and in the new planning period of EU funds 2014-2020 is not based on mortgage lending principles because apartment owners by taking the loan in bank do not pledge their apartments, but the financing principle is based on positive flow of residents' payments (for services, management). When drawing up the programme of EU funds 2014-2020 for financing of multi-apartment houses the most important task of housing policy makers is to find the most effective financing mechanisms, which, when combined with housing lending principles, would provide possibility to insulate as much multi-apartment houses as possible, thus improving the technical condition of the multi-apartment houses.

#### **4. DEVELOPMENT TRENDS IN MORTGAGE LENDING MARKET**

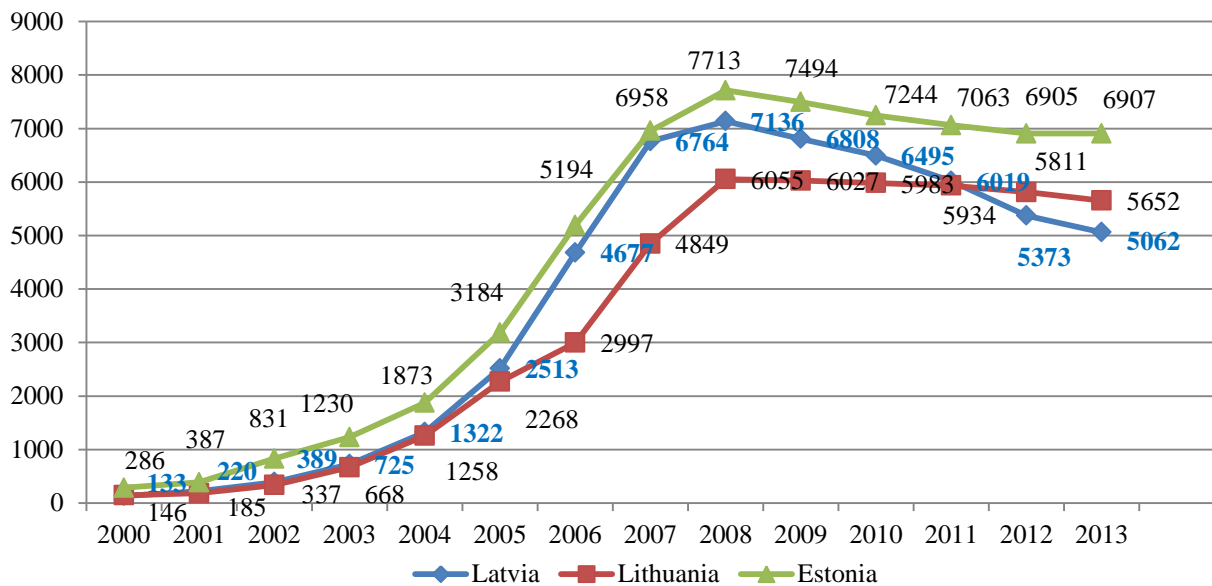
According to Hypostat data Latvian mortgage lending market is characterized by very rapid development of mortgage lending market during the period after Latvia joined the European Union in 2004, when mortgage lending volumes in the residential sector in 2005 constitute 2513 million euro, or by 2380 million euro more than in 2000 when mortgage loans in the housing fund were granted in amount of 133 million euro (Hypostat, 2014; Hypostat, 2011).

Following Latvian accession to the EU, Latvia had experienced a high level of GDP - from 2004 to 2007 GDP grew by 33%. Development of Latvia during this period was not based on correct principles - freely available and cheap foreign capital instead of investing in the economic development was mostly used for simple consumption, including the purchase of immovable properties. During this period the portfolio of mortgage loans experienced the fastest growth because it was simultaneous with construction boom, loans were easily

accessible and the value of immovable properties sharply increased. Lending boom and the rapidly growing real estate market contributed to an unprecedented demand for various types of imported products. As a result the import substantially exceeded the export, and the large current account deficit became one of the main precursors to the upcoming crisis (Research of Economical and Social Situation in the Baltic States: Latvia, 2013).

Taking into account the above mentioned, it should be pointed out that the mortgage market continued to grow rapidly until the global financial crisis in 2008, when the amount of granted loans in housing stock comprises 7136 million euro, or by 4623 million euro more than in 2005, when the total amount of granted mortgage loans comprises 2513 million euro. After the crisis from 2008 till 2013 the mortgage market in Latvia develop slowly and the amounts of outstanding mortgage loans for residential sector decreased with every year. In 2013 there were issued mortgage loans in value of 5062 million euro, or buy 2074 million euro less than in 2008.

After comparing amounts of Latvian mortgage lending with Estonian and Lithuanian indicators, it should be concluded that Estonia during time period from 2000-2013 was a leader in the mortgage lending market among the Baltic countries, while Lithuania in mortgage lending market was behind Latvia from 2000-2011, but from 2012 due to the fact that amounts of Latvian mortgage lending decreased more rapidly than in Lithuania, the total amounts of Lithuanian mortgage lending were higher than in Latvia (Hypostat, 2014; Hypostat, 2011) (see Figure 1).



**Figure 1.** Total Outstanding Residential Mortgage Loans in the Baltic States, 2000-2013 (total amount, end of year, EUR million)

Upon assessing changes in interest rates for mortgage loans in Latvia in total, it should be concluded that from 2000 to 2013 they had substantially decreased, i.e., for more than 3.4 times: from 11.4% - in 2000 to 3.28% - in 2013. At the same time interest rates for mortgage loans in Latvia from 2000 to 2013 are the highest among Baltic countries, by comprising in 2000 – 11.40% (in Estonia – 9.93%, in Lithuania – 10.38%); in 2005 - 4.43% (in Estonia – 3.32%, in Lithuania – 3.27%), during post-crisis period, in 2009 – 4.88 (in Estonia – 4.17%; in Lithuania – 3.87%); in 2013 – 3.28% in Estonia – 2.39%, in Lithuania -2.69%) (Hypostat, 2014; Hypostat 2011) (see Table 1).



Table1

**Representative Interest rate (annual average based on monthly figures, %) (1) in the Baltic States, 2000-2013**

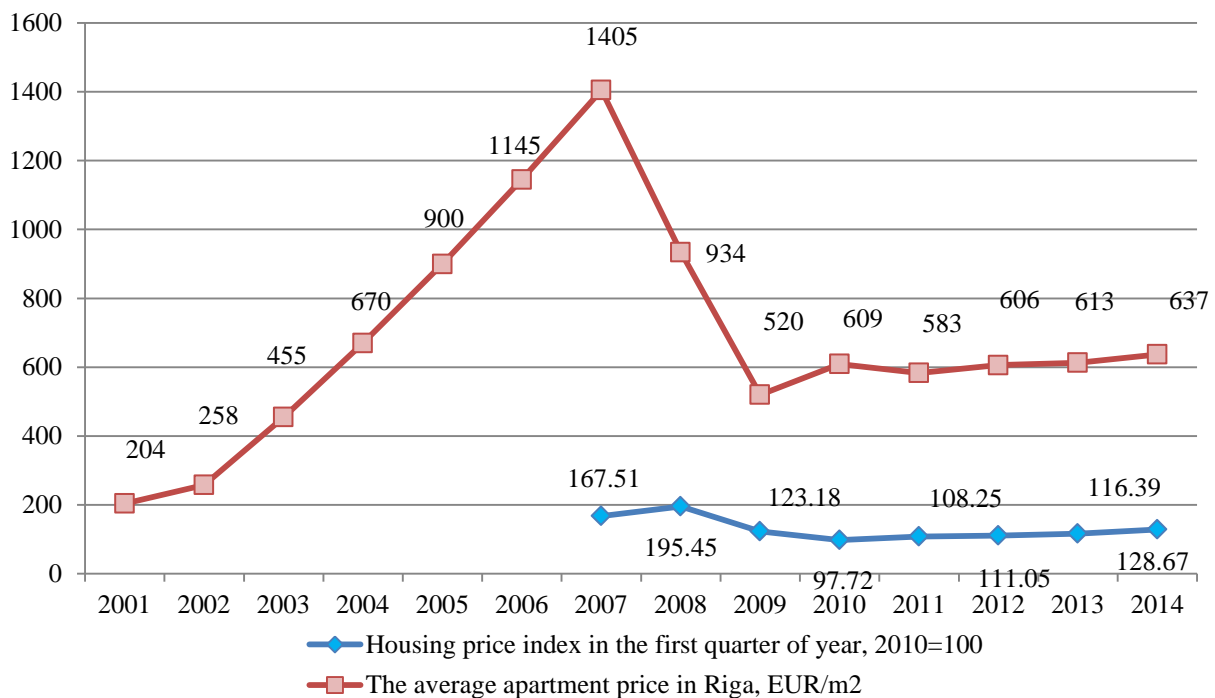
Year	Latvia	Lithuania	Estonia
2000	11,40	10,38	9,93
2001	11,10	7,72	8,77
2002	8,60	7,41	6,05
2003	8,30	5,64	4,97
2004	5,00	4,47	4,52
2005	4,43	3,27	3,32
2006	4,83	4,26	4,06
2007	5,99	5,53	5,40
2008	6,65	5,83	5,83
2009	4,88	3,87	4,17
2010	3,88	3,50	3,70
2011	4,05	3,42	3,71
2012	3,89	2,89	2,97
2013	3,28	2,62	2,39

(1) Weighted average interest rate on loans to households for house purchase.

*Source: Author's made table by data of Hypostat (2014); Hypostat (2011)*

Over the past 10 years, Latvia has undergone significant changes in housing prices. After a rapid increase of price between 2005 and 2007, there followed even more rapid decrease by 2010, by dropping down of housing prices by as much as 50% of their maximum level and even by 70% for apartments in series buildings in Riga, which form an important part of real estate market.

In 2014, in the side of supply there has not been observed large activity. Although the construction costs fell down during the financial crisis, during the last three years they have gradually increased and reached approximately the same nominal level as in 2007. At the same time, housing price index indicates that new housing prices have returned to pre-crisis levels (Central Statistical Bureau data base; Acro real estate company, 2014) (see Figure 2.).



**Figure 2.** Housing price index in Latvia and average apartment price in Riga

Source: Author's made by data of Central Statistical Bureau and Acro Real Estate company (2014)

In Latvia the mortgage loans are issued by licensed credit institutions (banks) and licensed non-bank crediting companies. Each creditor has its own credit policy and in particular, the requirements which it establishes for the borrower varies greatly. There are 27 banks in Latvia, including ten branches of foreign banks and seventeen banks and most part of them what issue mortgage loans for purchase, construction or repairs of dwelling or houses. Provisions of each bank slightly differ however in general they are similar. The majority of banks offer mortgage loans in amount up to 75% from the market value of immovable property, 25% should be covered by the borrower himself or herself. However there are also banks what offer loans in amount of more than 75% of the value of immovable property, for example, in the amount of 85%. The banks offer mortgage loans with term up to 30 years, issuing them dollars or euros, with both fixed and variable interest rate (The Association of Commercial Banks of Latvia, 2015).

According to the data of Consumer Protection Centre as of November 2014 in Latvia there are operating 13 licensed non-bank crediting companies and their total mortgage loan portfolio constitutes 25.91 million euro (on 06.30.2014). They offer a maximum loan amount of up to 50% of the real estate market value (Consumer Protection Centre, 2014).

Taking into account the above mentioned it should be concluded that the banks generally offer lower interest rates and longer repayment periods. By contrast, non-bank crediting company will be more convenient if the loan is required rapidly.

## CONCLUSIONS

The author's concludes the research that:

1. Mortgage lending is long-term lending for purchase, construction or renovation of dwelling or house and it forms the base for housing finance. Mortgage lending system in Latvia was formed in 2012, and it complies with EU requirements. The latest changes in legislation show

that the state more attention devotes to consumers' rights and their protection and thus to ensure their well-being and socio-economic situation in today's society, at the same time imposing also stronger provisions for consumers in mortgage lending, and thus reducing also the risk for banks.

2. The mortgage lending has important role in the case of housing crediting. Development of mortgage lending market during the period after accession to the EU and up to crisis in 2008 has evolved in excessive speed in result of what it resulted in inadequate increase of housing prices, as well as it left negative impact on development of mortgage marked in post-crisis period. Since 2009, the amounts of mortgage lending during post-crisis period have decreased annually.

3. The main instrument in crediting the purchase, construction or renovation of one-apartment and two-apartment houses is a mortgage loan. At the same time, according to the current experience in crediting renovation of multi-apartment houses it should be concluded that crediting for renovation of multi-apartment houses currently is not based on mortgage lending principles. Crediting of multi-apartment houses in Latvia has attracted resources from EU funds and provisions of programmes do not determine pledging the multi-apartment house property, but is based on positive cash flow of the multi-apartment house owners.

4. The requirement for capital investments Latvian banks are interested in use of mortgage market potential, however due to low solvency of residents the inflow of foreign capital in Latvian through special credit lines intended for housing development, as well as through mortgage lending instruments without special state support is severely limited.

Taking into account the above mentioned author's considers some proposals for the government (policy makers) in Latvia:

1. The most important task of the government is to assess the most efficient financing model within framework of new programme of EU funds 2014 – 2020 for multi-apartment building heat insulation.

2. The government has to develop and implement financial mechanisms especially for multi-apartment sector, for example, subsidies, guarantees, forfeiting mechanism, using the experience of other EU countries and combining them with the mortgage loans it would allow to reach significant improvements in the housing sector in the country by providing affordable loans to households for the purchasing, construction and renovation of housing.

Further research by the author in this sector will follow.

## REFERENCES

1. Acro Real Estate Company (Laukalejs, M.) (2014), "Latvian Real Estate Market Overview 2014" // "Latvijas nekustamo ipasumu tirgus parskats 2014", available at: [http://issuu.com/arcorealestate/docs/maris\\_laukalejs](http://issuu.com/arcorealestate/docs/maris_laukalejs) (accessed: 17 May 2015).
2. Altum (2014), "Housing guaranty programme" // "Majoklu galvojumu programma", available at: [http://www.hipo.lv/lv/attistibas\\_programmas/majoklu\\_galvojumu\\_programma](http://www.hipo.lv/lv/attistibas_programmas/majoklu_galvojumu_programma) (accessed: 15 May 2015).
3. Andrejeva, V. (2005), "Mortgage Lending System Development in Latvia. Problems and Solutions. Summary of Thesis" // "Latvijas hipotekaras kreditesanas. sistemas attistiba. Problemas un risinajumi. Promocijas darba kopsavilkums", available at: [http://www3.acadlib.lv/greydoc/Andrejevas\\_disertacija/Andrejeva\\_lat.doc](http://www3.acadlib.lv/greydoc/Andrejevas_disertacija/Andrejeva_lat.doc) (accessed: 11 March 2015).
4. Cabinet of Ministers of the Republic of Latvia (1997), "Mortgage lending system conception" // "Hipotekaras kreditsistemas izveidosanas koncepcija".
5. Central Statistical Bureau data base. Economy and Finance. Short term statistical data. Consumer Prices. PC07. House Price Index and Change., available at [http://data.csb.gov.lv/pxweb/en/ekfin/ekfin\\_isternm\\_PCI/PC0070c.px/table/tableViewLayout1/?rxid=cb978c-22b0-416a-aacc-aa650d3e2ce0](http://data.csb.gov.lv/pxweb/en/ekfin/ekfin_isternm_PCI/PC0070c.px/table/tableViewLayout1/?rxid=cb978c-22b0-416a-aacc-aa650d3e2ce0) (accessed: 10 May 2015).
6. "Civil Procedure Law" (1998) // "Civilprocesa likums", available at <http://likumi.lv/doc.php?id=50500> (accessed: 12 March 2015).

7. Consumer Protection Centre (2014), "Review of the non-bank consumer credit market on 2014 1st half"// "Parskats par nebanku pateretaju kreditesanas tirgus darbibu parskats 2014. Gada 1.pusgada", available at: [http://www.ptac.gov.lv/sites/default/files/docs/2014\\_i\\_pusgads\\_parskats\\_par\\_nebanku\\_kredit\\_tirgu%281%29.pdf](http://www.ptac.gov.lv/sites/default/files/docs/2014_i_pusgads_parskats_par_nebanku_kredit_tirgu%281%29.pdf) (accessed: 18 May 2015).
8. "Consumer Right Protection Law" (1999) // "Pateretaju tiesibu aizsardzibas likums", available at <http://likumi.lv/doc.php?id=23309> (accessed: 14 March 2015).
9. "Credit Institutions Law" (1995) // "Kreditiestazu likums", available at <http://likumi.lv/doc.php?id=37426> (accessed: 8 March 2015).
10. Darzina, L. (2015), " "On key" Principle Expected to Replace as Option" // "Nolikto atslegu" principu paredz aizstat ar izveles iespeju", available at <http://www.lvportals.lv/print.php?id=268792> (accessed: 14 March 2015).
11. Dubel, H.J., Rothemund, M. (2011), "A New Mortgage Credit Regime for Europe Setting the Right Priorities", Centre for European Policy Studies, European Credit Research Institute, ISBN 978-94-6138-112-5 (EBSCO).
12. Friedemann, R. (2008), "Mortgage Markets in Central and Eastern Europe – A Review of Past Experiences and Future Perspectives", European Journal of Housing Policy, 8, (2), 133–160.
13. Henilane, I. (2015), "The Evaluation of Housing Situation in Latvia", in Towards Smart, Sustainable and Inclusive Europe: Challenges for Future Development" 2015 proceedings of XVI Turiba University International Conference in Latvia, Riga, 2015, Riga: SIA „Biznesa augstskola „Turiba”” (EBSCO), 93-106.
14. Hypostat (2011), "A Review of Europe's Mortgage and Housing markets", available at: [www.ehipoteka.pl/ehipoteka/content/.../file/HYPOSTAT%202011.pdf](http://www.ehipoteka.pl/ehipoteka/content/.../file/HYPOSTAT%202011.pdf) (accessed: 19 May 2015).
15. Hypostat (2014), "A Review of Europe's Mortgage and Housing markets", available at: [http://www.hypo.org/PortalDev/Objects/6/Files/Hypostat\\_2014.pdf](http://www.hypo.org/PortalDev/Objects/6/Files/Hypostat_2014.pdf) (accessed: 18 May 2015).
16. Ijevleva, K. (2014), "Latvian consumer financial literacy housing loan market marketing context". Summary of Thesis" // "Latvijas pateretaju finansu lietpratiba majoklu kreditu tirgu marketinga konteksta". Promocijas darba kopsavilkums, available at: <https://luis.lu.lv/pls/pub/luj.fprnt?l=1&fn=F245926210/Ksenija%20Ijevleva%202014.pdf> (accessed: 12 May 2015).
17. Informative report of Cabinet of Ministers on the Housing Development Crediting Programme (Stage II) and implementation of the State Joint Stock Company "Latvian Mortgage and Land Bank" through the issuing of guarantees for housing loans (2008) // Ministru kabineta informativais zinojums par Majoklu attistibas kreditesanas programmas (II posms) istenosanu un valsts akciju sabiedribas „Latvijas Hipoteku un zemes banka” darbibu, izsniedzot galvojumus majoklu kreditiem, available at: <http://tap.mk.gov.lv/lv/mk/tap/?pid=30342923&mode=mk&date=2008-07-29> (accessed: 10 May 2015).
18. "Land Register Law" (1937) // "Zemesgramatu likums", available at <http://likumi.lv/doc.php?id=60460> (accessed: 14 March 2015).
19. Lejniece, I. (2012), "Consumer behavior in the credit market. Summary of Thesis" // "Pateretaju uzvediba kreditu tirgu. Promocijas darba kopsavilkums", available at: <https://luis.lu.lv/pls/pub/luj.fprnt?l=1&fn=F82649894/Ilna%20Lejniece%202011.pdf> (accessed: 20 March 2015).
20. Mazure, G. (2012), "Mortgage Lending Market Development Tendencies Within the Context of Global Financial Crisis", Latvian University of Agriculture, Faculty of Economics, Economic Science for Rural Development No. 28., 2012, ISSN 1691-3078.
21. Ministry of Finance of the Republic of Latvia (2012), "Mortgage lending implementation management group will cease to work" // "Hipotekaras kreditsistemas ieviesanas vadibas grupa beigs darbu", available at: <http://www.fm.gov.lv/lv/aktualitates/jaunumi/24321-hipotekaras-kreditsistemas-ieviesanas-vadibas-grupa-beigs-darbu> (accessed: 2 May 2015).
22. "Mortgage Bond Law" (1998) // "Hipotekaro kilu zimju likums", available at <http://likumi.lv/doc.php?id=49868> (accessed: 8 March 2015).
23. Neilands, R. (2014), "Legal planning documents relating to the mortgage institute", in proceedings of the 56th International scientific conference of Daugavpils University, Latvia, 2014// "Tiesiskas planosanas dokumenti saistiba ar hipoteku institutu", Latvia: Akademiskais apgads „Saule”, 174-181.
24. Regulation project "Energy efficiency measures in residential buildings" (2014) // Noteikumu projekts "Energofektivitates pasakumi dzivojamas ekas", available at : <http://tap.mk.gov.lv/mk/tap/?pid=40324945> (accessed: 3 February 2015).
25. Regulations of Cabinet of Ministers No.284 on the Operational Programme "Infrastructure and Services" Supplement 3.4.4.1. activity "Improvement of heat insulation of multi-apartment residential buildings"

- project selection eleventh and next rounds”, ” project selection eleventh and next rounds” (2013) // Ministru kabineta noteikumi Nr.284 „Noteikumi par darbības programmas "Infrastruktūra un pakalpojumi" papildinājuma 3.4.4.1.aktivitātes "Daudzdzīvokļu māju siltumnoturības uzlabošanas pasākumi" projektu iesniegumu atlases vienpadsmito un turpmākajam kartam”, available at <http://likumi.lv/doc.php?id=25708> (accessed: 15 May 2015).
26. Research of Economical and Social Situation in the Baltic States: Latvia (2013) // Petejums par ekonomisko un sociālo situāciju Baltijas valstīs: Latvija, Eiropas Savienība: Eiropas Ekonomikas un sociālo lietu komiteja, available at: <http://www.eesc.europa.eu/resources/docs/qe-30-12-151-lv-c.pdf> (accessed: 15 March 2015).
27. Saeima Press Service (2015), ”Implement „On Key” Principle in the Consumer Right Protection Law” // ”Ievieš „nolikto atslegu” principu pateretāju tiesību aizsardzības regulējumā”, available at <http://www.saeima.lv/lv/aktualitates/saeimas-zinas/23126-ievies-nolikto-atslegu-principu-pateretaju-tiesibu-aizsardzibas-regulejuma> (accessed: 14 March 2015).
28. The Association of Commercial Banks of Latvia (2015), „The banking sector in figures”, available at: <http://www.bankasoc.lv/lv/statistika/> (accessed: 17 May 2015).
29. “The Civil Law” (1937) // “Civillikums”, available at <http://likumi.lv/doc.php?id=225418%20-> (accessed: 11 March 2015).
30. The state joint-stock company Altum (2014), “About Altum”, available at: [http://www.hipo.lv/en/about\\_the\\_bank](http://www.hipo.lv/en/about_the_bank) (accessed: 18 April 2015).

# MANAGEMENT IN HIGHER EDUCATION: THINKING AND PLANNING MORE STRATEGICALLY

**Yulia Stukalina**

*Transport and Telecommunication Institute, 1 Lomonosova street, Riga, Latvia*

*e-mail: [Stukalina.J@tsi.lv](mailto:Stukalina.J@tsi.lv)*

## **Abstract**

**Purpose** The purpose of the paper is to discuss the actions to be taken by higher education managers in the framework of developing a strategy aimed at achieving competitive advantage in the globalized external environment.

**Design/methodology/approach** The paper is based on the analysis of 1) theoretical literature and research papers within the area of educational and strategic management; 2) official OECD and EU documents on higher education; 3) the author's own experience in higher education management.

**Findings** Various factors – international, national and institutional – comprise the context, in which education managers make strategic decisions. In the fast-changing global environment characterized by the increasing level of competition, managers have to re-examine their strategy that should be focused on identifying the areas of competitive advantage. The priority areas may have either an external or internal accent, or both. The established priority action areas can be further developed into different focus areas. This demands using the holistic approach to creating a competitive strategy built on basic strategic priorities.

**Practical implications** The author hopes that whatever lessons the analysis provides will be helpful to higher education managers responsible for developing a competitive strategy of a modern university in the international context.

**Originality/value** The performed analysis has allowed the author to explore the factors that embrace the complex context, in which education managers develop their strategy, and identify the priority action areas in the framework of their overall strategy aimed at accomplishing competitive advantage and academic excellence.

Keywords: Higher education, strategy, priority, focus area

## **1. INTRODUCTION**

UNESCO experts agree that globalization has deeply influenced higher education, globalization being characterized by “an increasingly integrated world economy, new information and communications technology, the emergence of an international knowledge network, the role of the English language, and other forces beyond the control of academic institutions” (Altbach *et. al.*, 2009).

Nowadays, education and research are considered to be basic elements in the development of the global environment (Marginson and van der Wende, 2009), in which contemporary universities are functioning. This global environment is constantly changing; it is characterised by increasing competition and the emergence of new requirements (COM(2003) 58 final). As modern higher education institutions are complex multi-level non-linear systems, education managers make strategic decisions in a very complicated context shaped by various contributory factors, their decisions being aimed at accomplishing competitive advantage and academic excellence (Stukalina, 2013).

The global education market is continuously evolving. Today, higher education institutions (both public and private) are pressed to increase their revenues, at the same time decreasing their costs to stay competitive and affordable on the international education market. The expectations of students are also changing – they expect to choose what, how and when they learn, in compliance with their individual needs and interests, in their native country or abroad (COM(2013) 499 final). Consequently, higher education has become more flexible for satisfying the needs of new student populations; modern universities offer

relevant courses to attract adult populations, as the response to the changes in the labour market (The State of Higher Education 2014: Executive Summary, 2014).

Contemporary higher education institutions have to compete not only for attracting students, but also international staff, international academic and business partners, as well as international research funds in the context of cross-border higher education. Strengthened competition between modern public and private universities in respect of increasing local enrolment rates and attracting international students makes education managers re-examine their strategy, think and plan more strategically.

The purpose of the paper is to discuss the actions to be taken by higher education managers in the framework of developing a strategy aimed at achieving competitive advantage in the globalized external environment. The paper is based on 1) analysis of theoretical literature and research papers within the area of educational and strategic management; 2) analysis of OECD documents and European Union documents on the main trends and challenges in the area of higher education; 3) the author's own experience in higher education management.

## **2. HIGHER EDUCATION MARKET: KEY TRENDS, CHALLENGES AND OPPORTUNITIES**

The tertiary education systems of many OECD countries have experienced fast growth over the last decade; they are now facing new pressures as the result of a globalising economy and labour market (Huisman *et al.*, 2007; Tremblay *et al.*, 2012; The State of Higher Education 2014: Executive Summary, 2014).

As stated in the OECD Report "Education Indicators in Focus" (2013), between 2000 and 2011, the number of international students has more than doubled; almost 4.5 million tertiary students are enrolled outside their country of citizenship. Besides, new players have emerged on the international education market in the past decades (Australia, New Zealand and others). So it is hardly surprising that the main issue European universities face today is providing quality higher education (Bologna Declaration, 1999; Berlin Communiqué, 2003; COM (2003) 58 final; Standards and Guidelines for Quality Assurance in the European Higher Education Area, 2005; London Communiqué, 2007; The European Higher Education Area in 2012: Bologna Process Implementation Report, 2012; Report to the European Commission on Improving the Quality of Teaching and Learning in Europe's Higher Education Institutions, 2013).

Contemporary universities encounter complicated multidimensional problems and face a number of serious challenges. From an institutional perspective, universities are under pressure to become more effective and efficient across all of their missions – teaching, research and innovation and local economic development (The State of Higher Education 2014: Executive Summary). From a strategic management perspective, higher education managers have to find the most efficient ways to balance their university's position in terms of internal strengths and weaknesses against external opportunities and threats. Thus, in the extremely globalized international environment, higher education institutions must have the ability to investigate the up-and-coming opportunities and threats, so that to provide their students with the access to a broad education (Stukalina, 2008).

Among essential factors that have their impact on the development of higher education, experts mention increased cross-border education, the so-called "massification" of higher education, enlarged number of international students and diversified student population, more focus on branding and marketing, decreasing state funds, bigger expectations for quality, higher competition for better students and researchers, university internationalization,

introduction of new forms of digital learning, etc. (Gul *et al.*, 2010; Katsarova, 2015). Besides, universities have to balance higher education principles with labour market priorities (The State of Higher Education 2013: Executive Summary, 2013).

It should be noted that there are much more factors that are supposed to have an impact on the operation and further development of modern universities. In Table 1, the key trends for the future of higher education and the associated development opportunities for modern universities are summarized.

Table 1

**Key trends for the future of higher education and the associated development opportunities**

Main trends for the future of higher education (based on <i>Higher Education to 2030: Executive Summary</i> , 2009)	Development opportunities for modern universities
1. Intensified cross-border higher education and mobility of students	Exporting higher education services, this way attracting alternative financial resources (e.g. tuition fees for international students)
2. Increased international academic research affected by both collaborative and competitive forces	Attracting international funding for university research
3. Increased global impact of higher education systems in Asia and Europe and the growth of their scientific output	Attracting more young talents and outstanding researchers from all over the world
4. Increased private higher education provision and financing worldwide	Satisfying the increased demand for higher education that coincides (COM(2003) 58 final) with the low birth rate in Europe
5. Growth of market-like tools in higher education management through the use of performance-based and competitive allocation of funds	Developing a set of integrated management practices used to provide quality enhancement of a university in the customer-driven education context
6. Increased focus on quality assurance in response to the growing importance of private and cross-border higher education, institutional rankings and the quest for accountability	Developing quality assurance systems that set the parameters for the review of both undergraduate and postgraduate university programmes

As seen from the Table above, modern trends in higher education may stimulate further improvement of contemporary higher education institutions, at the same time posing new challenges to higher education managers. These challenges include, among other things, ensuring that European universities have sufficient and sustainable resources, increasing universities' research and education excellence, opening up universities to the outside world and increasing their international attractiveness, providing new opportunities to students in the context of the job market customization and lifelong learning, reorganisation of knowledge delivery, etc. (COM(2003) 58 final; COM(2007) 61 final; The European Higher Education Area in 2012: Bologna Process Implementation Report, 2012; Report to the European Commission on Improving the Quality of Teaching and Learning in Europe's Higher Education Institutions, 2013 ).

### 3. STRATEGIC MANAGEMENT IN THE HIGHER EDUCATION CONTEXT

As is evident from the foregoing, a broad range of factors make education managers think and plan more strategically. The need for a strategic vision of European higher education is obvious. According to Jeffs (2008), the role of strategic management in modern organizations is very important, since it offers a logical approach to strategic decision-making. Managing strategy is critical for higher education institution, because it supports the realization of its central activities such as teaching, research, social and economic service



(Watson, 2000). These activities, in turn, are determined by specific features of the educational area (Tavernier, 2005). Though educational management occurs in specific social and economic settings (Bush and Coleman, 2000), and is concerned with the purpose of education (Bush, 2007; Bush, 2011), the basic principles of strategic management are supposed to be relevant to contemporary universities (Stukalina, 2014), provided that the accomplishment of education-specific organizational goals requires using a special approach to developing strategies aimed at accomplishing competitive advantage and academic (research) excellence.

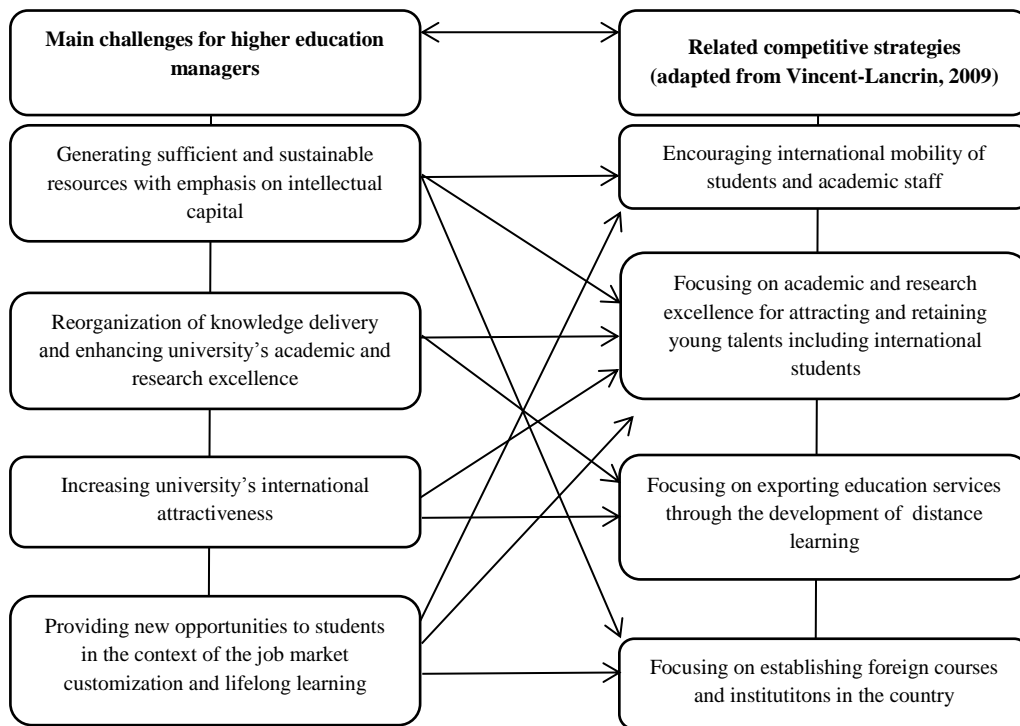
Strategic management in a contemporary university is linked to developing institutional policies intended for increasing its potential for change and a persistent concern for quality (Tabatoni, 2002). Today, institutional policies may focus on the following developments (Vincent-Lancrin, 2009):

- Europeanisation, which presupposes evaluation of a university's achievements in the Bologna Process and the Lisbon Strategy.
- Use of institutional rankings and related metrics of publication and citation, global rankings acquiring more policy significance and becoming more sophisticated.
- Increase of cross-border faculty mobility, since global element in labour markets has gained weight because of use of global university rankings.

Therefore, education managers must consider different processes in various contexts. Various strategies are developed to provide an institution with a competitive advantage (Hill and Jones, 2013), strategy being defined as a set of coordinated actions designed and performed for accomplishing the purpose of an organization (Hill and Jones, 2013; Sadler, 2003). The university's overall strategy may embrace a number of strategies differentiated by the nature of leadership, which are intended for guaranteeing the competitiveness of the organization (Moldovan, 2012). As said by (Vincent-Lancrin, 2009), in the agenda of the internalization of higher education and research in a globalizing world, education managers may employ different strategies:

- The traditional internationalisation strategy based on mutual understanding, which encourages the international mobility of students and academic staff by means of grants, academic exchange programmes and partnerships between universities.
- The strategy based on skilled migration, which is focused on excellence and competition for talent, and involves a more proactive and results-oriented approach to the recruitment of foreign students.
- The strategy based on revenue generation, which is focused on exports of education services.
- The strategy focused on encouraging studies abroad and establishing foreign courses and institutions in the country.

It should be noted that the above strategies are closely related to the main challenges posed to education managers by a globalizing external environment, which are mentioned in European documents on education (Fig.1).



**Figure 1.** Competitive strategies in the context of cross-border higher education

From Figure 1, we can see that the proposed strategies can be applied to meet some critical challenges of higher education management. However, we assume that the matter cannot rest here, since there are many other contexts (both external and internal), in which strategic decisions are made.

It should be mentioned that each of the above strategies represents a different means of creating a competitive advantage. In business, companies may adopt a single strategy, two or even three strategies (choosing the so-called hybrid strategy) in order to survive in the current era of globalization (Baroto *et al.*, 2012). University management has to decide on the appropriate strategy (strategies) taking cognizance of the fact that different strategies have different consequences in different contexts. Moreover, every strategy has its advantages and risks. So the choice will depend on several factors: the effects of globalization, situation in the global labour market, situation in the international higher education market, social and university context, financial models, leadership and management models, specialization (technical/humanitarian), etc. Besides, public and private higher education institutions may choose dissimilar strategies. There is a further point to be made here – the implementation of these strategies without clear goals and careful planning runs the risk of generating poor outcomes.

#### 4. IDENTIFYING THE AREAS OF COMPETITIVE ADVANTAGE

Performing the strategic analysis of a university's external and internal environment, education managers make various decisions at different levels and in a number of social situations. They include decisions about customers and products, different resources, organizational systems and technologies, risk, etc. (Morden, 2007). In education, the strategic analysis process also includes the acknowledgment of the prevailing internal culture of the educational organization (Fiddler, 2002).

From strategic management perspective, strategic analysis will be focused on the external and internal resources of an educational organization. According to Gaponyuk *et al.* (2013), the issue of managing educational resources in a contemporary university is related to the issue of modernization in education, which is understood as the “process of educational system transformation”; modernization in education presupposes that managerial process can be regarded as a set of interconnected elements: management of a) education development; b) institutionally-organized educational systems; c) modernization risks. We suppose that, in this framework, management of education development can be associated with accomplishing academic and research excellence; management of institutionally-organized educational systems can be related to creating reorganized and updated university infrastructure for supporting education development, management of modernization risks encompassing the process of identifying, assessing and responding to emerging risks.

Therefore, the inclusive management of the integrated educational environment of a modern university occurs in different functional areas of an educational organization, being based on the holistic approach and directed at achieving synergy necessary for accomplishing education-specific organizational goals (Stukalina, 2014). In these functional areas, various strategies can be initiated. Though strategy is usually associated with large decisions, even smaller tactical moves prove to be strategic in certain cases (Gopinath and Siciliano, 2010). Strategic decisions can be made on the basis of numerous criteria (Bhushan and Rai, 2004). Though, at the same time, uniformity must be maintained throughout the organization; uniformity is supported by accentuating a “spirit of shared strategic goals and a sense of higher education community” (Kohtamaki, 2010).

In the agenda of an overall strategy, managers can develop a collection of generic strategies that will most probably lead to sustained competitive advantage (Duncan *et al.*, 1998). In the framework of developing multiple strategies, strategic planning will include all elements that are crucial to any managerial process: organizational goals, organizational structures and resources, relationships within the organization, etc. (Tabatoni and Barblan, 2002). For creating a competitive strategy, managers have to understand and examine the internal and external situation of an organization (Thompson and Strickland, 2003); strategic decision-making should be directed at matching the internal capabilities of an organization with the external environment by deciding on the best possible alternative (Bhushan and Rai, 2004). As the methods used for overall management of a university may have a crucial influence on the progress of academic disciplines (Shattock, 2003), competitive advantage and academic (research) excellence escort each other. It is obvious that academic (research) excellence is closely related to organizational performance.

As previously stated, competitive advantage may be achieved by focusing on particular priority areas, which will be singled out as fundamentally important; these priority areas can be further developed into different focus areas. The main idea is to set specific goals and allocate (reallocate) various resources more efficiently for the implementation of different tasks. The goals include corporate-level strategic goals (associated with the entire educational organization as a single body) and functional area-specific strategic goals subsequent upon the corporate-level goals (Stukalina, 2014). The priority areas may have either an external or internal accent, or both. Determination of the areas of competitive advantage may be done in the framework of the selected overall strategy (single or hybrid), which is aimed at attaining the university’s academic and (or) research excellence judged to be essential at European or at international level. The areas of competitive advantage are identified using the holistic approach to strategy development and implementation.

We presume that the key to developing a competitive strategy lies in understanding and identifying the areas of competitive advantage education managers should focus on in order to

be up to the challenges posed to them by the ever-evolving global environment. A university should be viewed as a single entity including different integrated and interrelated subsystems and processes under the impact of modernization. The academic and research strengths of the educational organization are based on a wide variety of resources – tangible, non-tangible, semi-tangible. The resources are associated with university services and facilities, education, research and the related staff (Table 2).

Table 2

**Management of a modern university: Identifying the areas of competitive advantage**

Priority (strategic goal)	Focus area
To gain more recognition in five years – to be ranked among the top 100 world universities To strengthen cooperation with other universities, research institutions, secondary schools, enterprises and interest groups To make university a safe, sustainable and attractive place for students and academic staff (including international students and academic/attending staff) To make university accessible to local citizens, international students and academic staff	<i>University infrastructure:</i> Creating advanced university services and facilities Creating ICT-based research and education infrastructure Creating sustainable university environment <i>Education:</i> Developing new advanced interdisciplinary programmes and distance learning systems for providing flexible lifelong learning possibilities Attracting external funds for international education <i>Research:</i> Building research laboratories Developing technology centres and science parks Attracting external funds for international research Recruiting, motivating and retaining first-rate researchers <i>Academic staff:</i> Recruiting, motivating and retaining first-rate academic staff

It should be noted that the hereinafter appearing focus areas are associated with the university' traditional tasks, which according to McBurnie and Zigura (2009) are the following: teaching, research and community service, that is – with modern university's specificity. Strategy involves implementation of a series of actions necessary to achieve long-term goals and distribution of resources required for accomplish long-term goals (Koontz and Weihrich, 2010).

For achieving competitive advantage in the above focus areas education managers have to take a set of actions in the framework of the developed strategy (Stukalina, 2014):

- Implementing cost-effective university infrastructure improvements providing ICT-supported education
- Making university settings safe and attractive for academic and social life
- Implementing consistent attending staff recruitment procedures
- Creating new programmes including interdisciplinary programmes to respond to changes in an increasingly competitive global job market that demands transferable skills
- Developing advanced distance learning methods and blended learning techniques to make learning resources more accessible in the context of lifelong learning (ICT-based education)
- Attracting funding from various sources including European Union Structural Funds
- Increasing research opportunities by strengthening support for research grants and international collaboration and using advanced university infrastructure (ICT-based research)
- Increasing research opportunities by developing products in partnership with local companies
- Making targeted investments in the university library to create digital content with emphasis on research constituent

- Developing discipline-specific web portals
- Implementing consistent academic staff recruitment procedures and creating a new university recruiting website
- Increasing the number of professors and associate professors as an important element in providing excellent education and first-rate research.

## CONCLUSIONS

The analysis performed in this paper on the basis of theoretical literature and research papers on educational and strategic management, as well as a set of official OECD and EU documents on higher education allows the author to draw a few conclusions.

1. Today, managers seek new ways of creating multiple strategies to address the unprecedented set of challenges in higher education and manage emerging risks.
2. In the fast-changing global environment characterized by the increasing level of competition between universities, education managers have to reconsider their strategy that should be focused on identifying the areas of competitive advantage.
3. The identified priority areas may have either an external or internal accent, or both.
4. The three priority action areas discussed in the paper include a) university image creation (gaining more recognition in the near future, for example, being ranked among the top 100 world universities), which is particularly topical for Latvian higher education institutions today; b) development of the constructive university environment as an attractive place for all stakeholders, which requires not only the reorganization of knowledge delivery, but also campus and facility management that is in line with sustainable development; c) internationalization of universities, which should be considered as a driver for positive change and continuous improvement of educational services.
5. Various international, national and institutional factors comprise the context, in which managers working in higher education develop and implement their strategy.
6. The established priority action areas can be further developed into different focus areas for distributing various resources intended for supporting a set of actions in the framework of the developed strategy. This demands using the holistic approach to creating a competitive strategy built on basic strategic priorities.

## REFERENCES

1. Altbach, Ph.G., Reisberg, L. and Rumbley, L.E. (2009), "Trends in Global Higher Education: Tracking an Academic Revolution". A Report Prepared for the UNESCO 2009 World Conference on Higher Education, available at <http://www.uis.unesco.org/Library/Documents/trends-global-higher-education-2009-world-conference-en.pdf> (accessed 12 September 2015).
2. Baroto M.B., Madi Bin Abdullah, M. and Wan, H.L. (2012), "Hybrid Strategy: A New Strategy for Competitive Advantage", *International Journal of Business and Management*, Vol. 7, No. 20, pp. 120-133.
3. Berlin Communiqué: Realising the European Higher Education Area (2003), available at [http://www.ond.vlaanderen.be/hogeronderwijs/bologna/documents/MDC/Berlin\\_Communique1.pdf](http://www.ond.vlaanderen.be/hogeronderwijs/bologna/documents/MDC/Berlin_Communique1.pdf) (accessed 24 January 2015).
4. Bhushan, N. and Rai, K. (2004), *Strategic Decision-Making. Applying the Analytic Hierarchy Process*, Springer, USA.
5. Bologna Declaration (1999), available at [http://www.ond.vlaanderen.be/hogeronderwijs/Bologna/documents/MDC/BOLOGNA\\_DECLARATION1.pdf](http://www.ond.vlaanderen.be/hogeronderwijs/Bologna/documents/MDC/BOLOGNA_DECLARATION1.pdf) (accessed 12 March 2015).
6. Bush, T. and Coleman, M. (2000), *Leadership and Strategic Management in Education*, SAGE, London.
7. Bush, T. (2007), "Educational Leadership and Management: Theory, Policy, and Practice", *South African Journal of Education*, Vol. 27 No. 3, pp. 391–406.
8. Bush, T. (2011), *Theories of Educational Leadership and Management*, 4<sup>th</sup> ed., SAGE London.

9. Education Indicators in Focus – 2013/05 (July) (2013), OECD Publishing, available at [http://www.oecd.org/education/skills-beyond-school/EDIF%202013--N%C2%B014%20\(eng\)-Final.pdf](http://www.oecd.org/education/skills-beyond-school/EDIF%202013--N%C2%B014%20(eng)-Final.pdf) (accessed 14 September 2015).
10. COM (2003) 58 final. “The Role of the Universities in the Europe of Knowledge”: Communication from the Commission of 5 February 2003, available at [http://europa.eu/legislation\\_summaries/education\\_training\\_youth/lifelong\\_learning/c11067\\_en.htm](http://europa.eu/legislation_summaries/education_training_youth/lifelong_learning/c11067_en.htm) (accessed 24 January 2015).
11. COM(2007) 61 final. “A Coherent Framework of Indicators and Benchmarks for Monitoring Progress towards the Lisbon Objectives in Education and Training”: “Communication from the Commission of 21 February 2007, available at <http://europa.eu/scadplus/leg/en/cha/c11099.htm> (accessed 22 January 2015).
12. COM(2013) 499 final. “European Higher Education in the World”: Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, available at [http://ec.europa.eu/education/higher-education/doc/com499\\_en.pdf](http://ec.europa.eu/education/higher-education/doc/com499_en.pdf) (accessed 29 June 2015).
13. Duncan, W.J., Gintei, P.M. and Swayne, L.E. (1998), “Competitive advantage and internal organizational assessment”, *Academy of Management Executive*, Vol. 12 No. 3, pp. 6-16.
14. Fiddler, B. (2002), *Strategic Management for School Development: Leading Your School’s Improvement Strategy*, SAGE, London.
15. Jeffs, Ch. (2008), *Strategic Management*, SAGE, London.
16. Gaponyuk, P.N., Karpova, N.K. and Mareev, V.I. (2013), “Specifying the Concept “Theory of Education Management Process” at the Level of Intramural Quality Management”, *American Journal of Educational Research*, Vol. 1 No. 6, pp. 208-215, available at <http://pubs.sciepub.com/education/1/6/7/> (accessed 01 October 2015).
17. Gopinath, C. and Siciliano, J. (2010), “Strategize! Experimental Exercises in Strategic Management”, 3rd edition, South-Western Cengage Learning, USA.
18. Gul, H., Gul, S.S., Kaya, E., Alican, A. (2010), “Main trends in the world of higher education, internationalization and institutional autonomy”, *Procedia Social and Behavioral Sciences*, Vol.9, pp.1878–1884, available at <http://www.sciencedirect.com/science/article/pii/S187704281002522X> (accessed 21 August 2015).
19. Higher Education to 2030: Executive Summary (2009), Vol. 2: Globalisation. Centre for Educational Research and
20. Innovation, available at [http://cyber.law.harvard.edu/communia2010/sites/communia2010/images/OECD\\_2009\\_Higher\\_Education\\_to\\_2030\\_Volume\\_2\\_Globalisation.pdf](http://cyber.law.harvard.edu/communia2010/sites/communia2010/images/OECD_2009_Higher_Education_to_2030_Volume_2_Globalisation.pdf) (accessed 27 August 2015).
21. Hill, Ch.W. and Jones, G.R. (2013), *Strategic Management Theory*, 10th edition, South-Western, Cengage Learning, USA.
22. Huisman, J., Santiago, P., Hogselius, P., Lemaitre, M.J. and Thorn, W. (2007), “OECD Reviews of Tertiary Education: Estonia”, available at <http://www.oecd.org/estonia/39261460.pdf> (accessed 28 August 2015).
23. Katsarova, I. (2015), “Higher education in the EU: Approaches, issues and trends. In-depth analysis”, European Parliamentary Research Service, available at <http://www.europarl.europa.eu/EPRS/EPRS-IDA-554169-Higher-education-in-the-EU-FINAL.pdf> (accessed 10 September 2015).
24. Kohtamaki, V. (2010), “Strategy Implementation in a Higher Education Institution: Successes and Failures”, Paper presented in track 1, EAIR 32nd Annual Forum in Valencia, Spain, available at <http://www.eair.nl/forum/valencia/pdf/688.pdf> (accessed 24 March 2015).
25. Koontz, H. and Wehrich, H. (2010), *Essentials of Management: An International Perspective*, 8<sup>th</sup> ed., Tata MsGraw Hill Education Private Limited, New Delhi.
26. London Communiqué (2007), available at [http://www.ond.vlaanderen.be/hogeronderwijs/bologna/documents/MDC/London\\_Communique18May2007.pdf](http://www.ond.vlaanderen.be/hogeronderwijs/bologna/documents/MDC/London_Communique18May2007.pdf) (accessed 11 April 2015).
27. Marginson, S. and van der Wende, M. (2009), “The New Global Landscape of Nations and Institutions”, *Higher Education to 2030, Volume 2: Globalisation*, pp. 17-62, available at: <http://www.mfdps.si/Files/Knjiznica/higher%20educational%202030%20OECD.pdf> (accessed 24 January 2015).
28. McBurnie, G. and Ziguras, Ch. (2009), “Trends and Future Scenarios in Programme and Institution Mobility across Borders, Cross-border Higher Education: Trends and Perspectives”, *Higher Education to 2030, Vol. 2: Globalisation*, pp. 89-108, available at <http://www.mfdps.si/Files/Knjiznica/higher%20educational%202030%20OECD.pdf> (accessed 14 September 2015).

29. Moldovan, L. (2012), "Integration of Strategic Management and Quality Assurance in the Romanian Higher Education", *Procedia-Social and Behavioral Sciences*, Vol. 58, pp. 1458–1465, available at: <http://www.sciencedirect.com/science/article/pii/S1877042812045946> (accessed 11 February 2015).
30. Morden, T. (2007), *Principles of Strategic Management*, 3rd ed., MPG Books Ltd., UK.
31. Vincent-Lancrin, S. (2009), "Cross-border Higher Education: Trends and Perspectives", *Higher Education to 2030*, Vol. 2: Globalisation, pp. 63-88, available at <http://www.mfdps.si/Files/Knjiznica/higher%20educational%202030%20OECD.pdf> (accessed 10 May 2015).
32. The Lisbon Strategy 2000 – 2010: An analysis and evaluation of the methods used and results achieved. Final Report (2010), available at [http://www.europarl.europa.eu/document/activities/cont/201107/20110718ATT24270/20110718ATT24270\\_EN.pdf](http://www.europarl.europa.eu/document/activities/cont/201107/20110718ATT24270/20110718ATT24270_EN.pdf) (accessed 11 May 2015).
33. Report to the European Commission on Improving the Quality of Teaching and Learning in Europe's Higher Education Institutions (2013), available at [http://ec.europa.eu/education/library/reports/modernisation\\_en.pdf](http://ec.europa.eu/education/library/reports/modernisation_en.pdf) (accessed 15 September 2014).
34. Shattock, M. (2003), *Managing Successful Universities*, McGraw-Hill International, UK.
35. Standards and Guidelines for Quality Assurance in the European Higher Education Area (2005), European Association for Quality Assurance in Higher Education, Helsinki, Finland, available at [http://www.bologna-bergen2005.no/Docs/00-Main\\_doc/050221\\_ENQA\\_report.pdf](http://www.bologna-bergen2005.no/Docs/00-Main_doc/050221_ENQA_report.pdf) (accessed 15 December 2014).
36. Stukalina, Y. (2008), "How to Prepare Students for Productive and Satisfying Careers in the Knowledge-Based Economy: Creating More Efficient Educational Environment", *Technological and Economic Development of Economy: Baltic Journal on Sustainability*, Vol. 14 No. 2, pp. 197-207.
37. Stukalina, Y. (2013), "Management of the Educational Environment: the Context in which Strategic Decisions are Made", *Procedia - Social and Behavioral Sciences*, Vol. 99, pp.1054 – 1062. [doi.org/10.1016/j.sbspro.2013.10.579](https://doi.org/10.1016/j.sbspro.2013.10.579)
38. Stukalina, Y. (2014), *Strategic Management of Higher Education Institutions, Management of Organizations: Systematic Research*, No.70, pp. 80-90.
39. Stukalina, Y. (2015), "Management of higher education institutions: Searching for the ways to gain competitive advantage", *Economics and Culture*, Vol. 12, pp. 87 – 98.
40. Tabatoni, P. (2002), "An Explanatory Glossary", *Thema 2*, European University Association, pp. 23-28, available at [http://www.eua.be/eua/jsp/en/upload/strategic\\_manag\\_uni\\_institutional\\_devlpt.1069322397877.pdf](http://www.eua.be/eua/jsp/en/upload/strategic_manag_uni_institutional_devlpt.1069322397877.pdf) (accessed 22 January 2014).
41. Tabatoni, P. and Barblan, A. (2002), "Strategic Management, A Tool of Leadership – Concepts and Paradoxes", *Thema 2*, European University Association, pp. 5-11, available at [http://www.eua.be/eua/jsp/en/upload/strategic\\_manag\\_uni\\_institutional\\_devlpt.1069322397877.pdf](http://www.eua.be/eua/jsp/en/upload/strategic_manag_uni_institutional_devlpt.1069322397877.pdf) (accessed 21 January 2015).
42. Tavernier, K. (2005), "Relevance of Strategic Management for Universities", *Tijdschrift voor Economie en Management*, Vol. L No 5, available at [https://lirias.kuleuven.be/bitstream/123456789/120121/1/tem\\_5\\_05\\_tavernier.pdf](https://lirias.kuleuven.be/bitstream/123456789/120121/1/tem_5_05_tavernier.pdf) (accessed 11 December 2014).
43. The European Higher Education Area in 2012: Bologna Process Implementation Report (2012), available at [http://www.ehea.info/Uploads/\(1\)/Bologna%20Process%20Implementation%20Report.pdf](http://www.ehea.info/Uploads/(1)/Bologna%20Process%20Implementation%20Report.pdf) (accessed 15 March 2014).
44. The State of Higher Education 2013: Executive Summary (2013), Introduction, OECD, available at <http://www.oecd.org/edu/imhe/StateofHigherEducation2013-ExecutiveSummary.pdf> (accessed 10 November 2015).
45. The State of Higher Education 2014: Executive Summary (2014), Introduction, OECD, available at <http://www.oecd.org/edu/imhe/SOHE2014-Executive%20Summary.pdf> (accessed 10 November 2015).
46. Thompson, A., A. and Strickland, A., J. (2003), *Strategic Management: Concepts and Cases*, McGraw-Hill/Irwin, USA.
47. Tremblay, K., Lalancette, D. and Roseveare, D. (2012), "Assessment of Higher Education Learning Outcomes. Feasibility Study Report", Vol. 1: Design and Implementation, OECD, available at <http://www.oecd.org/education/skills-beyond-school/AHELOFSReportVolume1.pdf> (accessed 15 November 2015).
48. Watson, D. (2000), *Managing Strategy*, Open University Press, Buckingham.

# STUDENTS WORKLOAD DURING THEIR STUDY PROCESS: EVIDENCE FROM LATVIA

**Ieva Brence**

*RISEBA University, Riga, Latvija*

*e-mail: [ieva.brence@riseba.lv](mailto:ieva.brence@riseba.lv)*

**Mikus Dubickis**

*Latvian Academy of Sciences*

## **Abstract**

Purpose: The purpose of the paper is to provide analysis on students' workload in Latvia by researching the differences among study branches and modes of studies, and to find the correspondence of the real study workload to the officially regulated – 40 hours per week.

Design/Methodology/Approach: Analysis are based on the survey results performed in 2013 where 2917 students representing most of the Latvia's higher education institutions provided answers on their study workload. Statistical calculations are used for data analysis.

Findings: The research results reflect that students in general spend less than 40 hours per week on their studies. In most cases devote less numbers to individual work, if compared to the number of hours spent in classes, the study directions of psychology, sociology being an exception. More than 56% of full-time students and 72% of part-time students consider the workload should be increased - in most cases they would prefer having more contact hours. In almost all the higher education institutions students do report on irregular workload that turns to be high in certain weeks and much weaker in others.

Research limitations/implications: The response rate - more than 3% students of higher education institutions and 7% of colleges is comparatively high, the data still doesn't allow providing detailed analysis on each higher education institution and on each study level.

Practical implications: The research results and research methodology can be used by higher education institutions, in order to measure the students workload as well as to gain.

Social implications: Education is one of the most important tools for promoting person's professional and personal development. In this regard – better quality in education will always promote better carrier possibilities for students.

Originality/value: The research draws a framework on the measurement possibilities of students workload. In addition, this is the first research in Latvia, involving more than 2900 respondents' opinions, thus providing a representative sample.

Keywords: Students workload, higher education, Latvia

## **1. INTRODUCTION**

Students workload has commonly been seen as an important variable in the curriculum (Kember, 2004) and as Bowyer (2012) states: student workload is a contributing factor to students deciding to withdraw from their study before completion of the course, at significant cost to students, institutions and society (Bowyer, 2012).

There are number of publications devoted to the issue (e.g. Bowyer, 2012, Centra, 2003, Garmendia, Guisasola, Barragues, Zuza, 2008, Kai, 2009, Kyndt, Struyven, Cascallar, 2011, Zhao, Hoge, 2005, etc.) stating the importance of measuring students workload in study process. At the same time students' workload still is not always taken into account, e.g. when measuring the study quality. Students use to complain on unbalanced workload (Council of Higher Education in Latvia, 2012) and on low efficiency of some classes despite the high workload HSBC Students Research, November 2008).

Garmendia, et. al. (2008) note that the relative student workload is a difficult concept to be defined exactly. Any method which is used to measure a student's effort will be, to a certain extent, a simplified way of estimating the workload.



Recent research work concentrating on the analysis of students studying in the field social sciences in Latvia concluded that students who are forced to work during their studies are negatively affected - very often they refuse to attend the contact hours in higher education institutions (Auers, Rostoks and Smith, 2007).

Taking into account the afore-mentioned, the purpose of the paper is to provide analysis on students' workload in Latvia by researching the differences among study branches and modes of studies, and to find the correspondence of the real study workload to the officially regulated – 40 hours per week. Analysis are based on the survey results performed in 2013 where 2917 students representing most of the Latvia's higher education institutions provided answers on their study workload. The survey was organised online and students in all the higher education institutions were informed through the Students' Councils. Students from 48 higher education institutions participated in the survey. None of the questionnaire were received from six universities and 7 colleges students. There were 2980 questionnaires received, the number of valid questionnaires was 2917. To compare - 1709 students (full-time only) responses were analysed in the Eurostudent IV Latvian survey in autumn 2009.

## **2. STUDENTS' WORKLOAD - THEORETICAL CONCEPTS AND MEASUREMENT POSSIBILITIES**

### **2.1. STUDENTS' WORKLOAD – PRECONDITION FOR THE HIGHER EDUCATION QUALITY**

One of the main motives of higher education institutions is to guarantee a qualitative education.

The ‘‘Communique’ of the Conference of Ministers Responsible for Higher Education in Berlin on 19 September 2003’’ establishes that the quality of higher education has ‘‘proven to be at the heart of the setting up of a European Higher Education Area’’ (Zhentian, 2009). Yet, to this day, there is still no widely acknowledged concept regarding the definition of higher education quality (Kai, 2009) even though there is a number of published books and journal articles on the subject of quality, starting from early 1980s up to now (Doherty, 2008). Furthermore, the complexity of the process increases since the set of quality attributes to be measured and their relative weight is not constant but varies according to the different stakeholder point of view (Tsinidou, Gerogiannis and Fitsilis, 2010). The evaluation of higher education programmes is a complex issue not only due to the number of data necessary for ensuring the evaluating the higher education quality, but also due to the different types of calculations the higher education institutions use e.g. for registering their academic staff or financing available for one programme (Brence, Rivza, 2013).

Educational evaluation has its roots in the classroom, in testing and assessing students. This activity is, of course, still important, but today evaluation activity has expanded into the entire educational system and is used on all levels from individuals, over classrooms, programmes, organizations, fields, and national as well as international levels (Hansen, 2009).

Course evaluations remain the primary method used in higher education to gauge how effectively courses are taught (Remedios and Lieberman, 2008). Besides, evaluation of teaching at universities is traditionally realized in terms of student ratings (Spiel, et.al., 2006). At the same time students' ratings usually are based on asking them certain questions about each particular professor or study programme in general. Often some of the students (chosen by the higher education institution) are interviewed by the evaluation experts. Many of the existing methods of evaluation in higher education are underpinned by a conception of learning that is de-contextualised. As a consequence, many data collection methods do not

address aspects that affect students' learning. This is problematic because the core aim of higher education is to facilitate student learning (Nygaard, 2011). Moreover, very few are the cases when students workload is taken into account for evaluation of the study programmes.

A substantial body of research affirms the common sense notion that involvement in academic work and quality of effort payoff: the more students engage in educationally purposeful activities, the more they learn (McCormick, 2011). Yet, some other authors state that having time" is a precondition for experiencing a manageable workload. When this precondition is fulfilled, the interest of a student and the ability to plan and set priorities play an important role in the perception of workload (Kyndt, Berghmans, Dochy, Bulckens, 2014). These factors do influence students' workload again, raising a question on how much time should be devoted in the classrooms and how much should remain for the out-of-class activities.

At the same time a question still arises – how to measure students academic work and workload.

## **2.2. EVALUATION OF STUDENTS WORKLOAD – RECENT RESEARCH RESULTS**

Several time-use studies in engineering education have shown that students use less time studying than has been allocated in the curricula (Kolari, Savander-Ranne, Viskari, 2008). The same research results apply to students of social sciences (EUROSTUDENT, IV, 2009). At the same time increasing numbers of students are experiencing difficulty adjusting to college (Kreig, 2013).

In this regard the question on how do students feel in their study process and how much do they study is of importance, yet still not answered in detail.

When considering study results one should take into account that gender is implicated in schemas that students have about good study behaviour, how much one is influenced by social norms regarding studying behaviour, and how one evaluates students who do well (Grabill, Asane, at. al., 2005).

The previous studies also suggest that the development of formative assessment systems is a workload that can be managed within the academic work set, both for students and teachers (Romero-Martín, Fraile-Aranda, Lopez-Pastor, Castejon-Oliva, 2014).

Students' workload is a broad issue that can be analysed from different perspectives. The students academic achievements, employability during their studies, socio-economic conditions and other important factors are analysed in a number of research papers (Auers, Rostoks and Smith, 2007; Kember, 2004; EUROSTUDENT, IV, 2009).

In frames of the research concentrating on analysis of aspects related to social and economic conditions and students (EUROSTUDENT, IV, 2009) the following conclusions were drawn:

- in most countries the time budget of students exceeds 40 hours;
- the time resources of students are affected by their age and study field;
- in more than 50% of the countries 40% of students are regularly employed;
- in approximately half of all the countries surveyed 40% of students were very satisfied with their weekly time budget. The highest satisfaction rate was in Denmark, Latvia, the Netherlands and Sweden.

One of the possibilities for finding the actual situation in students' learning, is analysis of their workload devoted to studies during their study process.

Student workload has commonly been seen as an important variable in the curriculum (Kember, 2004). As Bowyer (2012) states: student workload is a contributing factor to

students deciding to withdraw from their study before completion of the course, at significant cost to students, institutions and society (Bowyer, 2012). At the same time Garmendia, et. al. (2008) note that the relative student workload is a difficult concept to define exactly. Any method which is used to measure a student's effort will be, to a certain extent, a simplified way of estimating the workload. One method suggested by the educational researchers is to make the estimate by asking the students via specific questionnaires. An objection usually emerges at this point from teaching staff who are sceptical about the method's reliability because they doubt that the answers given by the students in the questionnaires will be even close to the truth (Garmendia, Guisasola, Barragues and Zuza, 2008). In addition one should take into account that regardless of how much a student generally studies each day, if that student sacrifices sleep time to study more than usual, he or she will have more trouble understanding material taught in class and be more likely to struggle on an assignment or test the following day (Gillen-O'Neel, Huynh, Fuligni, 2013).

In parallel with studies, a lot of extra activities need to be fitted in a student's schedule. Frequently, excessive workload results in poor performance or in failing to finish the studies (Moka and Refanidis, 2010).

Evaluation of students workload is associated with a number of shortcomings that are further analysed in the following chapter.

### **2.3. EVALUATION OF THE STUDENTS WORKLOAD – POSSIBLE SHORTCOMINGS**

Learning outcomes had a large positive effect on student evaluations of instructions, as it should. After controlling for learning outcomes, expected grades generally did not affect student evaluations. In fact, contrary to what some faculty think, courses in natural sciences with expected grades of A were rated lower, not higher. Courses were rated lower when they were rated as either difficult or too elementary. Courses rated at the "just right" level received the highest evaluations (Centra, 2003).

The concepts of evaluating the workload usually don't stress the issue that there are always some courses you have to study hard and some where you devote much smaller amount of time, besides spending more time doesn't always mean spending the time more effectively.

When participating in the surveys on studies workload, students usually stress the fact that not only the actual numbers spent on studies should be taken into account, but the overall quality of lectures also: "Today I had a lecture from 9am to 11am, the first half was merely sitting listening to the lecturer read off slideshows...a different lecturer for the second half who was much better, involved the students and paused so people had time to note down important things" (Extract from a student blog (*First Year, BSc*), NUS/ HSBC Students Research, November 2008).

Bowler (2012) notes that four manageable variables that are observed as influencing adult students' satisfaction with a business course: relevancy of subject-matter, faculty subject-matter competency, faculty classroom management, and student workload (Howell and Buck, 2012). Student workload is a contributing factor to students deciding to withdraw from their study before completion of the course, at significant cost to students, institutions and society (Bowyer, 2012).

Myers and Thorn have found that (a) classroom effort is correlated positively with the relational motive, the functional motive, the participatory motive, and the sycophancy motive, but not at all with the excuse making motive and (b) perceptions of course workload are not correlated at all with any of the five motives (Myers, Thorn, 2013). There is no significant

relationship between perceived workload and students' approaches to learning. For perceived task complexity, it was found that a perceived lack of information is a discouraging factor for inducing a deep learning approach. A lack of information consistently increases students' surface approaches to learning regardless of the induced workload and task complexity (Kyndt, Struyven and Cascallar, 2011).

In 2011 a research was performed on students satisfaction with their time devoted to their studies, by surveying students of engineering sciences. The research was focused on finding the students' opinions on the study process. The data gathered in the survey reflected that students would be willing to have more possibilities for practical training, more study courses that correspond to nowadays requirements and more enthusiastic academic staff members (Ministry of Education and Sciences of the Republic of Latvia, 2013). In this regard the workload was far not the only aspect to be measured in terms of the study programme quality.

Nevertheless, despite the students workload has to be measured, since it directly affects the quality of studies and provides a platform for further analysis. For this reason a research on students' workload was performed in Latvia in 2012 - 2013 and its methodology is described in the next part of the paper.

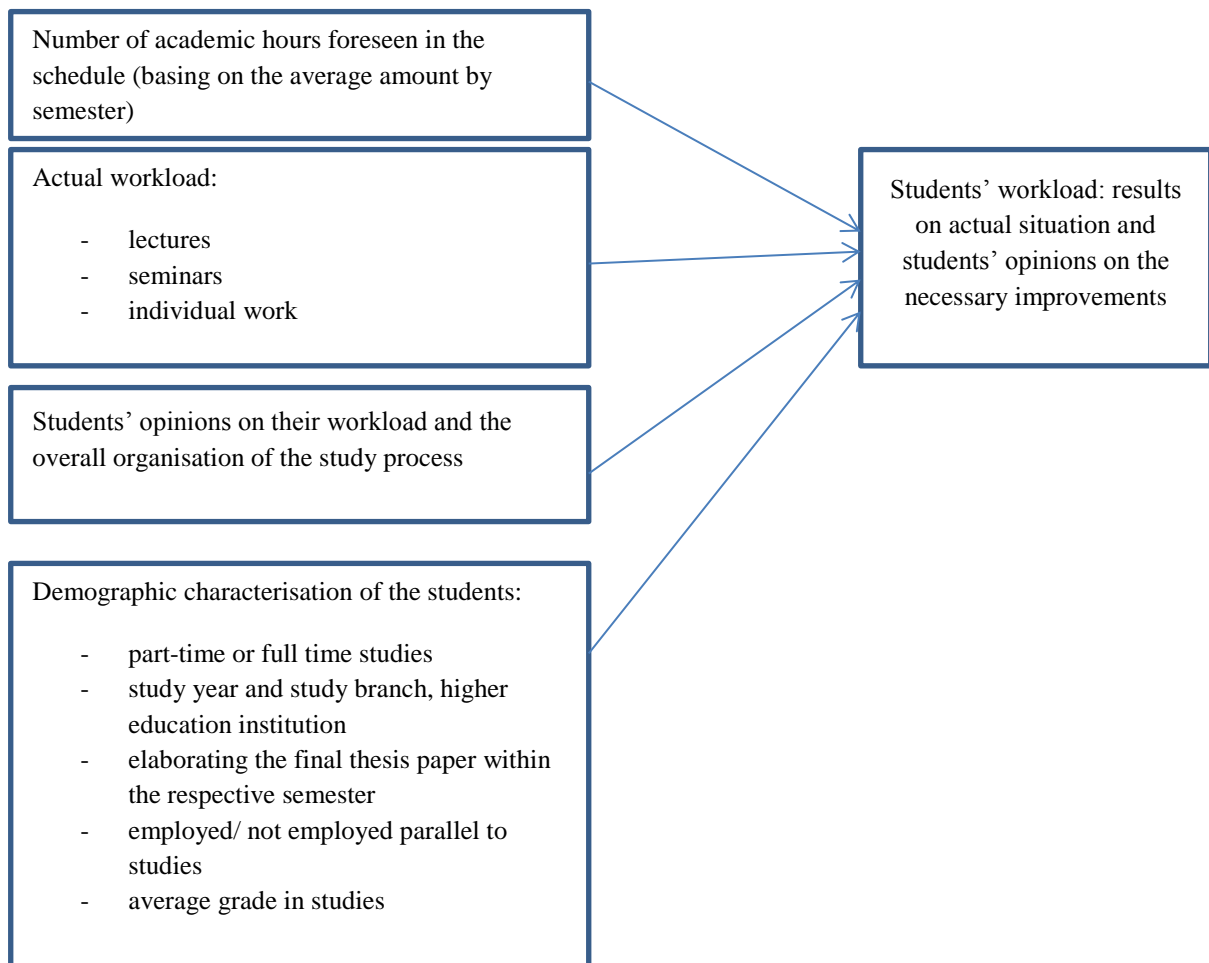
### **3. METHODOLOGY AND STATISTICAL INFORMATION USED**

For performing the research we do take into account the following definitions listed in the Law of Higher Education Institutions of the Republic of Latvia: an academic hour-unit of study time, lasting 45minutes.Credit – study accounting unit corresponding to 40 academic hours (one week of studies). Part-time studies-study type, which accounts for less than 40 credits per academic year and less than 40 academic hours per week. Load during the study process-from total actually attended classes and independent study time devoted to work (academic hours). Full-time studies-study type, which corresponds to 40 credits per academic year and a minimum of 40 academic hours per week.

The research was carried out from September 2012 to January 2013. The survey in general aimed to identify the students' workload during the study process for developing suggestions to improve the quality of studies.

For performing the task a students' questionnaire was elaborated by a team of experts', after careful consideration of the previous research performed, the questionnaires used and the comments received from the representatives of the Students' Councils who also participated in the development of the questions. Before performing the survey two pilot surveys were ensured among 10 students, and basing on the comments made the questions were adjusted. The data gathered in frames of the research were weighted, in order to represent the overall situation in the country.

The questionnaire was prepared in Latvian. It was possible to fill the questionnaire with a dictionary or an interpreter for students who fully yet not speak Latvian. The following conceptual framework was used for the questionnaire:



**Figure 1.** Conceptual model of the research.

The questionnaire was inserted in the home page of the Council of Higher Education (The questionnaire elaborated for measuring the students' workload, 2012) and information on the possibility to fill in the questionnaire was sent to all the higher education institutions in Latvia. This approach was chosen, following the Eurostudent IV survey in Austria, the Netherlands and Hungary.

According to data collected by the Ministry of Education, in October 2012, there were approximately 2 million people in Latvia in 2012 and 473 students per 10 000 inhabitants who studied in 954 education programs. There are 6 universities, 13 higher education institutions established by state, 14 higher education institutions established by juridical persons, 17 state colleges and 8 colleges, established by juridical persons, besides there are three branches of foreign higher education institutions (Ministry of Education and Sciences of the Republic of Latvia, 2013).

Students from 48 higher education institutions participated in the survey. None of the questionnaire were received from six universities and 7 colleges students. There were 2980 questionnaires received, the number of valid questionnaires was 2917. To compare - 1709 students (full-time only) responses were analysed in the Eurostudent IV Latvian survey in autumn 2009.

Since in some higher education institutions only a small number of questionnaires were received, the following table indicates the number of respondents (n), the number of full-time

and part-time students in the total number of the survey and the response rate by the higher education institutions type.

Table 1

**Number of students and level of response in the research, 2012**

	State higher education institutions, inter alia universities	Higher education institutions established by juridical persons	Higher education institutions, total	State colleges	Colleges, established by juridical persons	Colleges, total
<b>Full-time studies</b>						
Number of students	49133	12595	61728	5531	1388	6919
Number of valid questionnaires	1600	393	1993	406	69	475
Response, %	3,3	3,1	3,2	7,3	5,0	6,9
<b>Part-time studies</b>						
Number of students	12491	7513	20004	1557	4254	5811
Number of valid questionnaires	173	171	344	23	142	165
Response, %	1,4	2,3	1,7	1,5	3,3	2,8
<b>Full-time and part-time studies, total</b>						
Number of students	61624	20108	81732	7088	5642	12730
Number of valid questionnaires	1773	564	2337	429	211	640
Response, %	2,9	2,8	2,9	6,1	3,7	5,0

*Source: Author's calculations based on the project „Evaluation of Higher Education Institutions Study Programmes and Proposals for Quality Improvement”*

The number of valid questionnaires was completed by 73 percent of women and 27 percent men (their share in the total number of students were 59 and 41 percent). The proportion is not significantly different from the general proportion of students studying at the higher education institutions of Latvia.

The survey respondents had to report the average load per week during the semester, which is broadly consistent with the time budget used in the so-called "typical week of the semester." Load was measured in the study process in academic lessons (45 minutes). Eurostudent IV students' time budget analysis unit was used for astronomical hour, explaining that "students are required to report personal study time in clock hours, and taught studies—in clock hours, even though course hours may differ from this format". Yet, taking into account that in other research papers academic hours are used (NUS/ HSBC, GFK, 2008), the decision to concentrate on the academic hours was taken.

In frames of the survey students evaluated an average load per week in the fall semester (not in the previous week, as many other research papers have practiced). In their replies to the question "Do you elaborate graduation (qualification, bachelor's, master's. Etc.) work and / or whether you practice or are on leave?", 23% of the respondents replied affirmative and in accordance with the methodology gave answers about the previous semester.

The research results report that students' spend 18 - 35 academic hours per week on their studies on average, the number of hours spent on studies is smaller in part-time studies, if compared to the full-time studies, and, in addition, the number of hours devoted to studies decreases as the level of studies increases. More detailed data analysis is reflected in table 2.

Table 2

**Full-time and part-time student load by study program levels (the average number of teaching hours per week and the percentage of the total load in the study process), 2013, n = 2468**

Study branch	Number of hours foreseen in the schedule	Total workload	Inter alia by types of workload	
			classes attended	independent study work
All the full time study branches total (N=68659), inter alia	22,1	36,3	20,6	15,7
Education(N=3293)	26,1	41,0	22,3	18,7
Arts(N=3737)	25,5	38,5	22,8	15,7
Religion and theology(N=270)	18,7	29,4	15,1	14,4
History and philosophy(N=606)	18,9	36,6	18,3	18,4
Translation(N=979)	18,2	29,1	17,8	11,3
Psychology(N=1051)	21,0	47,6	20,2	27,4
Sociology, political science and anthropology (N=1104)	14,4	27,7	13,5	14,2
Economics(N=4239)	21,8	32,3	21,2	11,1
Information and communication sciences (N=2701)	18,3	33,9	18,7	15,2
Management, administration and management of immovable properties(N=10149)	20,6	31,7	18,5	13,2
Law(N=200)	17,1	30,1	15,8	14,4
Wildlife sciences(N=539)	20,1	28,6	19,7	8,9
Geography and earth sciences(N=353)	21,6	36,4	18,7	17,6
Chemistry, chemistry technologies and biotechnology(N=768)	23,5	38,5	22,2	16,2
Physics, mathematics and statistics(N=621)	21,5	34,9	20,8	14,1
Social welfare(N=1427)	24,7	35,6	24,3	11,3
Hotels and restaurants service and organisation of tourism and recreation (N=1699)	23,4	31,9	21,1	10,8

\* bachelors' study programmes, also the 2nd level higher education

*Source: Author's calculations based on the project „Evaluation of Higher Education Institutions Study Programmes and Proposals for Quality Improvement”*

For more detailed data analysis, study workload in frames of different study directions was analysed (see Appendix 1).

Table 3

**Distribution of students by average workload (number of academic hours per week),  
2013, n = 2977**

Average of weekly contact hours	Ways of students workload		
	Classes foreseen in the schedule	Classes actually attended	Independent study work
<b>Full-time studies (N=68659)</b>			
Total number of students, inter alia	100,0 %	100,0 %	100,0 %
workload of 15 hours and less	19,3 %	24,3 %	66,7 %
workload of 16 hours and more	80,7 %	75,7 %	33,3 %
<b>Part-time studies (N=25815)</b>			
Total number of students, inter alia	100,0 %	100,0 %	100,0 %
workload of 15 hours and less	86,4 %	87,6 %	61,7 %
workload of 16 hours and more	13,6 %	12,4 %	38,3 %

The data reflect that in general students don't devote 40 academic hours on their studies, with the exception of students in health care, approximately 7 hours are missed on average. Therefore we cannot speak on the trend that those students having higher number of contact hours foreseen in the schedule are devoting more hours to their studies in total.

Table 4

**Students opinion on the necessary changes in workload, full-time/part-time studies,  
2013, n = 2977**

	Number of responses	%
<b>Full-time studies</b>		
Total answers	<b>2468</b>	<b>100%</b>
It is necessary to increase	1386	56,6 %
It is necessary to decrease	916	37,0 %
Not necessary to change	166	7,0 %
<b>Part-time studies</b>		
Total answers	<b>509</b>	<b>100%</b>
It is necessary to increase	364	72%
It is necessary to decrease	112	22%
Not necessary to change	33	6%

The number of academic hours spent on the studies may be explained with the fact that many students are employed, inter alia in full-time positions, during their studies. Although there is no exact statistical data available on how many students are employed while studying, the trend seems to be considerable, leading to the supposition that the workload could be bigger in case the students were not employed. Yet the necessity to work is often correlated with the necessity to gain income.

## CONCLUSIONS

Students' workload is an important aspect for measuring the quality of higher education study programmes, yet often it is not fully taken into account when evaluating the higher education.



There is not common definition on students' workload, in some cases it is measured in frames of academic hours in other cases astronomic hours are used. According to the Latvian legislation, the students workload should correspond to 40 academic hours per week.

Scientific literature proves that students report their study workload during the previous week, yet also the number of average hours spent in frames of one semester is taken into account. The number of extra activities may also be a significant tool for measuring students' workload. Besides, it may be considerable to take into account not only the classes the students have attended, but the additional activities performed during the study period as well. Contents of information provided in the classes is essential for measuring study quality, yet not often measured.

The total number of average hours devoted for studies in Latvia in 2012 was 33,10 academic hours per week with the standard deviation of 2,97. The average number lessons (academic hours) foreseen in the schedule were 21,59 per week with the standard deviation of 2.87. So the students' schedules are comparatively intensive, yet more individual work is required.

According the study results, the highest total students workload is reported in Education and Psychology, and the lowest in the following sectors: Religion and theology, Translation, Sociology, political science and anthropology, Management, administration and management of immovable properties, Law.

56,6% of the students studying full-time and 72% of students studying part-time consider the workload should be increased – first years' students of the bachelors' programmes being the most willing for their workload increase.

The data reflect that students don't devote 40 academic hours on their studies, but 7 less on average. The exception is the study branches of health care,

Higher education institutions should follow the total workload of students during their study process, for maintaining and increasing the quality of study programmes they offer and for sustaining high level of education they offer.

Note: The authors thank Dace Govincuka, Inara Augule and Beatrise Silko for their support in preparing the publication.



Elaboration of the scientific publication was possible due to the financial support of the European Regional Development Fund project No. 2010/0294/2DP/2.1.1.2.0/10/APIA/VIAA/009

## REFERENCES

1. Auers D., Rostoks T., Smith K., (2007) Flipping Burgers or Flipping Pages? Student Employment and Academic Attainment in Post-Soviet Latvia. *Communist and Post-Communist Studies*, Vol.40, 477-491.
2. Bowyer, K. (2012). A Model of Student Workload. *Journal of Higher Education Policy & Management*, Vol. 34 no. 3, 239-258.
3. Brence, I., Rivza, B. (2012). Quality Evaluation of Higher Education Programmes: Process and Challenges in Latvia. *Proceedings of the MakeLearn Conference Knowledge and Learning: Global Empowerment (CD format)*.
4. Centra, J.A. (2003). Will Teachers Receive Higher Student Evaluations by Giving Higher Grades and Less Course Work? *Research in Higher Education*, Vol. 44, no. 5, 495-518.
5. Doherty, G. (2008). On Quality in Education. *Quality Assurance in Education*, Vol. 16, no. 3, 255-265.
6. Garmendia, M., Guisasola, J., Barragues, J. I., Zuza, K. (2008). Estimate of Students' Workload and the Impact of the Evaluation System on Students' Dedication to Studying a Subject in First-Year Engineering Courses. *European Journal of Engineering Education*, Vol. 33, no. 4, 463-470.
7. Gillen-O'Neel, C., Huynh, V., Fuligni, A. (2013). To Study or to Sleep? The Academic Costs of Extra Studying at the Expense of Sleep. *Child Development*, Vol. 84, issue 1, pp. 133-142.

8. Grabill, K. M., Lasane, T. P., Povitsky, W.T.; Saxe, P., Munro, G. D., Phelps, L.M., Straub, J. (2005). Gender and Study Behavior: How Social Perception, Social Norm Adherence, and Structured Academic Behavior are Predicted by Gender. *North American Journal of Psychology*. Vol. 7 Issue 1, pp. 7-24.
9. Hansen, H. F. (2009). Educational Evaluation in Scandinavian Countries: Converging or Diverging Practices? *Scandinavian Journal of Educational Research*, Vol. 53, no. 1, 71-87.
10. Howell, G. F., Buck, J. M. (2012). The Adult Student and Course Satisfaction: What Matters Most? *Innovative Higher Education*, Vol. 37, no. 3, 215-226.
11. Kai, J. (2009). A Critical Analysis of Accountability in Higher Education: Its Relevance to Evaluation of Higher Education. *Chinese Education and Society*, Vol. 42, no. 2, 39-51
12. Kember, D. (2004). Interpreting the Student Workload and the Factors Which Shape Students' Perceptions of Their Workload. *Studies in Higher Education*, Vol. 29, no. 2, 165- 84.
13. Kolari, S., Savander-Ranne, C., Viskari, E.-L. (2008). Learning Needs Time and Effort: A Time-Use Study of Engineering Students. *European Journal of Engineering Education*. Vol. 33 Issue 5/6, pp. 483-498.
14. Kreig, D. B. (2013). High Expectations for Higher Education? Perceptions of College and Experiences of Stress Prior to and Through the College Career. *College Student Journal*, Vol. 47 Issue 4, pp. 635-643.
15. Kyndt, E., Berghmans, I., Dochy, F., Bulckens, L. (2014). Time Is Not Enough." Workload in Higher Education: A Student Perspective. *Higher Education Research and Development*, Vol. 33, No. 4 pp. 684-698.
16. Kyndt, E., Struyven, K., Cascallar, E. (2011). The Perception of Workload and Task Complexity and Its Influence on Students' Approaches to Learning: a Study in Higher Education. *European Journal of Psychology of Education*, Vol. 26, no. 3, pp. 393-415.
17. McCormick, Alexander C. (2011). It's about Time: What to Make of Reported Declines in How Much College Students Study. *Liberal Education*, Vol. 97 No. 1 pp. 30-39.
18. Ministry of Education and Sciences of the Republic of Latvia (2013), Retrieved April 2, 2013, from <http://www.izm.gov.lv>
19. Moka, E., Refanidis, I. (2010). Towards Intelligent Management of a Student's Time. *Artificial Intelligence: Theories, Models and Applications*, no.6040, 383-388.
20. Myers, S.A., Thorn, K (2013). The Relationship Between Students' Motives to Communicate With their Instructors, Course Effort, and Course. *College Student Journal*. Vol. 47, no. 4, 485 – 488.
21. NUS/ HSBC, GFK (2008). Students Research, Students Contact Hours Mini Report, Retrieved February 18, 2013, from <http://www.nus.org.uk/.../Contact%20hours%20mini-report.doc>
22. Nygaard, C., Belluigib, D.Z. (2011). A Proposed Methodology for Contextualised Evaluation in Higher Education. *Assessment & Evaluation in Higher Education*, Vol.36, no. 6, 657-671.
23. Remedios, R., Lieberman, D. A. (2008). I Liked Your Course Because You Taught Me Well: The Influence of Grades, Workload, Expectations and Goals on Students' Evaluations of Teaching. *British Educational Research Journal*, Vol. 34, no. 1, 91-115.
24. Romero-Martín, R., Fraile-Aranda, A., Lopez-Pastor, V., Castejon-Oliva, F. (2014). The Relationship Between Formative Assessment Systems, Academic Performance and Teacher and Student Workloads in Higher Education. *Infancia y Aprendizaje*. Vol. 37 Issue 2, pp. 310-341.
25. Spiel, C., Schober, B., Reimann, R. (2006). Evaluation of Curricula in Higher Education: Challenges for Evaluators. *Evaluation Review*, Vol. 30, no. 4, 430-450.
26. The Parliament of the Republic of Latvia. Law of the Higher Education Institutions, in Latvian (1995). *Latvijas Republikas Saeima. Augstskolu likums (speka no 01.12.1995.) likums ar grozījumiem, kas izdariti līdz 15.11.2012*. Retrieved January 22, 2013, from <http://www.likumi.lv/doc.php?id=37967>
27. The Questionnaire Elaborated for Measuring the Students' Workload, in Latvian (2012). Retrieved March 7, 2013 from [http://www.aip.lv/ESF\\_studejoso\\_noslodzesaptauja\\_paligmaterials.htm](http://www.aip.lv/ESF_studejoso_noslodzesaptauja_paligmaterials.htm)
28. The Research on Students' Satisfaction (Studentu apmierinatības petījums), in Latvian (2011). Retrieved January 1, 2013, from [http://izm.izm.gov.lv/upload\\_file/Izglitiba/Augstaka\\_izglitiba/031011/Petijuma\\_rezultati.pdf](http://izm.izm.gov.lv/upload_file/Izglitiba/Augstaka_izglitiba/031011/Petijuma_rezultati.pdf)
29. Tsinidou, M., Gerogiannis, V., Fitsilis, P. (2010). Evaluation of the Factors that Determine Quality in Higher Education: An Empirical Study. *Quality Assurance in Education*, Vol. 18, no. 3, 227-244.
30. Zhao, Y., Hoge, J. D. (2005). What Elementary Students and Teachers Say about Social Studies Social Studies, Vol. 96 no. 5 p. 216.
31. Zhentian, L. (2009). Three Cognitive Issues Related to Evaluation of Institutions of Higher Education. *Chinese Education and Society*, Vol.42, no. 2, 58-62.

# **PROJECT LAB AS A LEARNING TOOL FOR DEVELOPMENT OF PROJECT MANAGEMENT COMPETENCES AT UNIVERSITY**

**Gundega Lapina**

*Riga International School of Economics and Business Administration*

*Meza Street 3, Riga, Latvia*

*e-mail: [gundega.lapina@riseba.lv](mailto:gundega.lapina@riseba.lv)*

**Inese Sluka**

*Riga International School of Economics and Business Administration*

*Meza Street 3, Riga, Latvia*

*e-mail: [inese.sluka@riseba.lv](mailto:inese.sluka@riseba.lv)*

## **Abstract**

The article introduces the concept of the Project Laboratory (Project Lab) as an innovative learning tool in university. The concept of the Project Lab successfully integrates the students' project management academic knowledge and practical skills, attracting available external and national EU funding and utilizing the professional experience of the faculty in project development and management. The essential part of the Project Lab is students' teamwork – development of real life project application. The aim of the article is to analyze Project Lab pedagogic aspects – learning methods and gained competences, as well as to present and interpret the results of the Project Lab in the RISEBA University. On the basis of the analysis of the results, the further development of the Project Lab is presented for discussion.

The study is done using the desk research, providing literature review about learning methods and project management skills, as well as the project funding opportunities. Besides, an empiric study on Project Lab implementation in Latvia, RISEBA University is carried out, including analysis of quantitative and qualitative data gained during the last three years.

On the basis of the study results the authors have made conclusions and recommendations for further Project Lab development. The authors are coming up with further Project Lab activities in university, diversifying the Project Lab concept for international and multidisciplinary teams and different study levels. In order to measure the efficiency of the Project Lab, the authors have identified the next steps in the improvement of the Project Lab, such as development of the monitoring system of the project outcomes, which can be integrated in the university quality management system, as well as applying the Project Lab concept in multinational teams both for international students and the Erasmus exchange students. The Project Lab as a learning method may be adapted in other universities, regardless of the country of residence.

Keywords: teaching project management, active learning, linking theory and practice, project management competences

## **1. INTRODUCTION**

The publicly available EU and national funds from one side, and a gap in practical linking of academic environment and the working life from the another side have led to a new solution in RISEBA University – The Project Laboratory (Project Lab) as a learning tool for development of professional business project applications during the study process. The concept of the Project Lab integrates the implementation of the students' project management academic knowledge and practical skills, attracting available external and national EU funding, utilizing the professional experience of the faculty in project development and management. The concept of the Project lab is developed basing on the case in RISEBA University. The Project Lab is realized as an internship, where the students apply their knowledge in practice, working in teams under the supervision of the teacher. During the internship students strengthen the project management knowledge and train their professional skills, particularly the soft skills. After piloting the Project Lab concept for three years, results

are summarized and analysed both from professional project management perspective and pedagogical viewpoint.

The aim of the research is to present the Project Lab as a learning method, including the learning outcomes and through these aspects to analyse the results and perspectives of the Project Lab in the RISEBA University. The article provides answers to the research questions: In what extent the Project Lab is linked to the practise? Which EU funds are most popular for the Project application development? Which project management skills do the students gain during the Project Lab?

The first chapter provides pedagogical justification of the project Lab concept – providing overview of different learning types, particularly the active learning, problem based learning and cognitive learning used in the Project Lab. Also the set of skills, defined by Springer and Price is presented in this chapter.

In the second chapter the research methodology and design are described, including the research aim, object and the research questions.

The third chapter includes the description of the Project Lab concept, and provides summary and analysis of the Project Lab results in RISEBA University during 2013-2015.

The conclusions are based on the study presented in this article, and include concrete recommendations for the further improvement of the Project Lab concept and its implementation. The conclusions are generalized and applicable in other universities. Also the conclusions include several theses for further research discussion in project management education area.

## 2. THEORETICAL BACKGROUND

### 2.1. PEDAGOGICAL JUSTIFICATION

From the pedagogical viewpoint, the Project Lab students are adults, working in parallel to their studies, and most of them have work experience.

Therefore, Project Lab is dealing with teaching adult persons, and that is why the **adult teaching methods** should be referred. According to Rogers (1996) adult education is student-centred, that teachers of adults should be more concerned with what their students are doing than what the teachers as teachers are doing.

Project Lab is **dynamic learning**, especially from the teaching viewpoint. The teacher is active all the time reassessing the student participants, evaluating process. Amending and redefining the goals, reconstructing the methods and content and learning all the time from the participants. The learners too are active, clarifying their intentions and changing their objectives. The teachers and learner join together in relation to a third element (project), a series of agreed but changing goals (Rogers, 1996).

Project Lab is based on **active learning**. Learning is a positive activity on the part of the learner calling in almost all cases for an act of the will (Rogers, 1996). Active learning has been explored by Dale (Dale, 1969). According to the traditional theory of active and passive learning, Dale divides all teaching and learning into two big groups – active and passive. Depending on the level of activity of the students, they can better learn the subject. As more active the students are involved in the learning process, more permanent is the knowledge gained. Passive learning includes such activities as reading, listening, viewing images, and watching videos. According to the Dale's theory, learning passively, after two weeks students remember 10-50% of the subject matter. However, active studies, including workshops, presentations, simulations and doing real things help the students to remember up to 90% of the experienced subject. Project Lab is a typical active learning, as the students learn by doing,

Project Lab is **cognitive learning**. The process of cognitive learning consists of recall and recognition of knowledge, comprehension, understanding the material, exploring it more actively; the application of the comprehended knowledge, using it in concrete situations; then exploring each new situation by breaking it down into its constituted parts (analysis) and building it up into new concepts (synthesis), and finally evaluation in which the learners come to assess the new knowledge, to judge its value in relation to the realization of their goals (Rogers, 1996).

Project Lab is **experiential learning**. Learning cycle starts with experience, proceeding through reflection on experience, and leading to action which in its turn becomes concrete experience for further reflection (Rogers, 1996). Roger states, that each of the learning cycle stages calls for different learning approaches and appeals to different kinds of persons – experimenters or pragmatists, activists, reflectors and theorizers. In Project Lab this is organized by carrying out the team work, where each student can take his/her natural role and give the best contribution to the team work.

Experiential learning is closely linked to the **problem based learning**. Problem based learning motivates students to define the problem, search for the concepts and cooperative learning. It improves communication skills, and supports a powerful classroom learning process which uses real-life problems. Problem-based learning requires people work with a group or a team, copes with different situations, improves self-learning and self-evaluation skills and motivates people to practice these skills, identifies the steps which are required for implementing the problem based learning as following: a) clarifying concepts, b) defining the problem and listing the concepts which need to be learned, c) brainstorming, d) systematic classification, d) formulating the learning objectives, e) lectures and self – study, f) clearing up and, g) reporting (Ganiron T.U., 2014). Project-based teaching improves the quality of teaching and learning and contributes to cognitive development of higher level involving students into solving of complicated and innovative problem solutions, teaching them complicated processes and procedures such as planning and communication, promoting authentic research and self-directed learning (Lasauskiene and Rauduvaite, 2015).

Many studies support the fact that students participating in project-based learning experiences show significantly higher learning outcomes than traditional instructional methods (Frank and Barzilai, 2006).

Students of the Project Lab usually have different academic backgrounds, interests and experience, applying different learning styles in the cognitive learning process. The **learning styles** in the Project Lab can be (Rogers, 1996):

- **Analogical thinking** – use of existing knowledge and experience – Project Lab students can use their multidisciplinary knowledge and experience in development of a new project;
- **Trial and error** – Project Lab students are allowed to make mistakes and to learn from them at the same time this method can be called discovery learning, where students are active, not passive learners, however this learning requires ability to reflect and analyse – summarize the experience and reflect on it;
- **Meaningful wholes** – to move from simplified wholes to more complex ones, to select out essential wholes from non-essential ones.
- **Less memory, more imitation**, where students rely more on understanding for retention, not memory, and use demonstration (e.g. present and discuss the achieved results) for learning.

The traditional constructivism pedagogic theories emphasize the **learning by doing** principle. This principle joins all the above mentioned learning types. Findings of the Shariff, Johan and Jamil (2013) study shows that giving students' group projects enable students' soft

skills to be developed as the tasks are embedded into the real authentic tasks and in actual environment; and with proper supervision and guidance from the lecturer as project advisor, it accentuates learning by doing.

## 2.2. PROJECT MANAGEMENT COMPETENCES

According to the Project Management Institution forecast of the project management industry growth (PMI, 2013), it is expected that between 2010 and 2020, 15.7 million new project management roles will be created globally across seven project-intensive industries. Along with the job growth, there will be a significant increase in the economic footprint of the profession (PMI, 2013).

As the project management becomes more important, effective education is vital for organizational competitiveness. In the nearest years, there is expected increasing demand for graduates of university project management programs in all types of industries and also a high demand for other professionals with project management competencies.

The exposure of project management students to ‘real’ situations through the provision of appropriate learning environments, and the need for them to reflect on their own skills in, and attitudes to projects, has been put forward as an essential strategy to promote more sensible and adequate responses to the emerging complexities we see in project practice (Cordoba and Piki, 2012).

In order to provide the up-to-date project management skills, it is important to follow the tendencies in the project management teaching. Ramazani and Jergeas (Ramazani and Jergeas, 2015) have studied the pedagogic and educational aspects of the project management, and have identified three main factors which educational institutions should consider in developing project managers:

- **developing critical thinking for dealing with complexity.** Ramazani and Jergeas (Ramazani and Jergeas, 2015) explain that a one-size-fits-all approach to project delivery is not practical anymore. Projects create a need to develop reflective and critical thinking by going beyond routine in project education. Some of the ways how to develop reflective skills are cooperation between academics and practitioners using real cases, simulations, role modelling and other active methods of teaching. Ramazani and Jergeas (Ramazani and Jergeas, 2015) emphasize the importance of working as a team because project manager does not have all of the required skills that the team members have.
- **developing softer parameters of managing projects, especially interpersonal skills as opposed to just technical skills.** Ramazani and Jergeas (Ramazani and Jergeas, 2015) research shows a need for a balance between project managers' technical and leadership competencies. The focus of most project management education in the context of universities has been on the technical skills deemed essential to achieve project success. Another possible reason is believed that acquiring technical skills is easier than acquiring the soft skills. Most employers today expect workers to demonstrate and excel in many ‘softer’ skills such as teamwork and group development. They are keen to tap into these vital soft skills obtained during study and periods of work experience, rather than just degree-specific knowledge (Pant and Baroudi, 2008).
- **preparing project managers to be engaged within the context of real life projects.** Ramazani and Jergeas (Ramazani and Jergeas, 2015) explain that the context and environment play a significant role. There is a need for project management students to be involved in real settings. This is one of the best ways to facilitate the transition from theory to practice. Developing these competencies requires more commitment and cooperation from both educational institutions and participants.

Also Springer (Springer, 2013) has studied the project management learning outcomes, and faces a problem that project management has to have rigorous standards and guidelines to define the work of project management professionals, but there is not a single set of project management competencies agreed and defined. He explained that the competencies include the behaviours indicative of what is required to be successful in the respective discipline. Competencies are manifested behaviours, which can be developed through training.

On the basis of empiric study of the companies, Springer (Springer, 2013) has defined the main **quantitative and qualitative project management behaviours** that are identified by the companies. **The quantitative behaviours** include the key training on the tools and techniques that enable monitoring the costs, schedule, and technical performance baseline.

**The Qualitative behaviours**, resulting from this research (Springer, 2013) are - understanding the global environment - seeing the bigger picture; understanding leadership, understanding team dynamics and individual personalities - team building and team development; understanding decision making; understanding the business case for diversity and attendant inclusivity.

Furthermore, as shows Springer (Springer, 2013) research, 85% of the behaviours of the top researched companies believe qualitative behaviours are at least as important as quantitative. This allows concluding that training of qualitative behaviours contributes to preparation of project managers demanded by the labour market. Springer's research shows behaviours a project manager shall have, but it doesn't specify the necessary skills for a project manager.

Project management as a profession and project management skills are mentioned as highly demanded in the near future market in Latvia (Ministry of Economics, 2014). The survey points out that project manager will be one of the most demanded professions in future. The project management skills, together with such skills as language knowledge, multitasking and multidisciplinary skills, leadership skills, international communication, flexibility and creativity are mentioned among the most market demanded qualities both in business and state sectors.

Recent literature reports a clear link between successful project outcomes and presence of such project management skills (Price, 2013):

- **Technical skills** (business analysis, change control, configuration management, contract management, domain knowledge, estimating, facilitation skills, financial management, meetings management, project planning, report writing, requirements definition, resource scheduling, risk management, vendor management, workshop design and delivery)
- **Managerial skills** (communicating skills, decision making, delegating skills, HR management, organisation skills, problem solving and analysis, self-organisation, staff development, stakeholder management, team building, time management);
- **Interpersonal skills** (conflict management, dealing with difficult people, empathy, emotional intelligence, influencing, integrity and honesty, motivational leadership, negotiating skills, relationship building, resilience and adaptability).

Project management skills help students solve problems, become leaders, think critically, develop as team players and take responsibility. It provides experiences that help build the 21st-century skills most desired by future employers, while equipping students for success in their personal lives (Fromm and Trilling, 2013).

### 3. RESEARCH METHODOLOGY

The study is done using the desk research and literature review, as well as an empiric study - analysis of quantitative and qualitative data gained analysing the results of the Project Lab implementation in Latvia, RISEBA University.

Literature review is used to explain pedagogic approach and project management skills. The literature has an important function to help provide background and context to the research, establishing the research problem and the gap which researches aim to fill thought the considerations of previous work (Tong, Thomson, 2015).

Desk research, particularly the internal one is used to describe Project Lab concept. The internal desk research is used for this research because its main advantage is that it involves internal and existing organizational resources to organize the collected data in such a way that it is not only efficient but also usable (Management, 2008).

Research is based on **quantitative method** (collected data about Project Lab) and **qualitative method** (feedback analysis of Project Lab students). Cresswell (Cresswell, 2013) states there are three ways to mix methods: 1) two solitudes of mixed methods, 2) sequential use of mixed methods, 3) integrated use of mixed methods. In the Project Lab research are used two solitudes of the mixed method approach, whereby both quantitative and qualitative studies feed the results but they are done separately. Two different methods are completed separately and the results are combined after the fact.

The aim of the research is to present the Project Lab as a learning method, including the learning outcomes and through these aspects to analyse the results and perspectives of the Project Lab in the RISEBA University. During the research the authors answer the research questions: In what extent the Project Lab is linked to the practise? Which EU funds are most popular for the Project application development? Which project management skills do the students gain during the Project Lab?

In order to answer the research questions, besides the review of learning methods and project management competences, the empiric analysis of the first three years Project Lab piloting is carried out. On the basis of the analysis of the results, the further development and potential improvements of the Project Lab are presented for discussion.

## 4. ANALYSIS OF PROJECT LABORATORY

### 4.1. THE PROJECT LABORATORY CONCEPT AND ORGANISATION

The Project Lab concept is developed basing on the needs of the labour market, opportunities of using university academic capacity in development of the students' professional skills, and current EU funding availability for innovative business development. The idea of the Project Lab concept is based on the University study program requirements for development of professional project management skills, and availability of EU funding for development of the project applications.

The aim of the Project Lab is to apply project management theory in practice, by development of real life project applications – searching for project funding opportunities, formulating project idea, aims and tasks in accordance to the selected project idea, and funding program opportunities, development of the project team and managing teamwork, looking for project partners and communicating with them, communicating with the relevant state/international agencies administrating the project programs, development of the project application in official form.

The Project Lab is organised in the framework of Internship. It is integrated in the curriculum of Postgraduate Business studies, and it corresponds to 9 ECTS, including both



face-to-face classes (lectures, workshops, group and individual consultations), as well as active learning and work in teams and individually (Project Laboratory Course Specification, 2015).

The Concept of the Project Lab is based on the active and experiential learning – learning by doing – making experiments, gaining experience, reflecting on that and then conceptualizing the gained experience. The Project Lab learning process allows making mistakes and stimulates students to learn from their experience. It is supposed that during the Project Lab students strengthen their theoretical knowledge in project management and gain tacit knowledge as well as qualitative and quantitative skills necessary for practical project management.

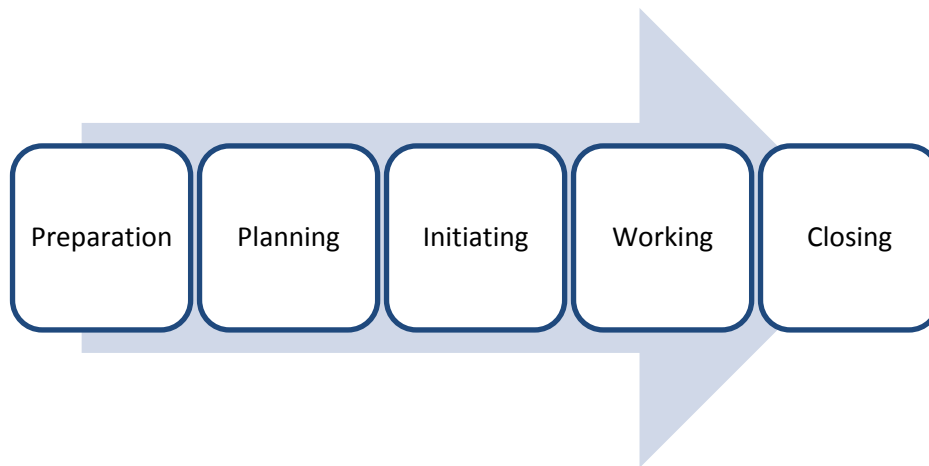
After completing the internship in the Project Lab, the students have achieved the intended learning outcomes, and are able to find relevant publicly available information on project funding, to formulate the project idea, in agreement with the project applicant, and the formal requirements of the funding programs, possess an ability to develop a project proposal according to the formal requirements, and are able to present the project proposal to the project specialists – experts.

The students' experience in the Project Lab depends also on the customers involved in the Project Lab activities. There are identified three types of the Project Lab customers: the student's residence company, the residence university, and the external customers. The first choice is the student's residence company, as it keeps the highest motivation for project application development. The external project ideas are usually presented to the students by the teacher and the representatives of the companies during the classes.

The Project Lab teachers' role is more important than the one in traditional internship or usual classes. In the Project Lab the teacher is giving lectures – review on the project management theory and summary in development of the project proposal, moderating creative thinking and discussion workshops, as well as supporting students as an individual tutor. The teacher is supervising the whole project development process, monitoring the team work and project development.

All of Ramazani and Jergeas (Ramazani and Jergeas, 2015) ideas were considered in the establishment of the Project Lab. The students work in real settings, solve issues of various levels of complexity, and apply the theoretical knowledge acquired during the internship. During this process the students apply critical thinking in analysing and assessing the information they get from their own experience in the communication and studying of official and corporate documents.

In order to describe the Project Lab organisation process, the authors have examined similar experience from Finland, particularly Turku University of Applied Sciences (TUAS). TUAS has developed a teaching and learning method, called Research Hatchery. This method is used to involve student teams actively in development of research projects. Project Lab is similar to the Research Hatchery, therefore describing the Project Lab organization the authors refer to the project development process phases, described by TUAS (Rasanen, Kyllonen, 2013) - planning, initiating, working and closing phases. As well as the Research Hatchery, the Project Lab study process includes five main phases: preparation, planning, initiating, working and closing (see Figure 1).



**Figure 1.** The main phases of the Project Lab study process.

**In the preparation phase**, the students review the theoretical knowledge in the scope of project application development and learn about different project funding opportunities, select the most appropriate project ideas and their relevance to the funding program opportunities. In this phase the teacher together with students reviews different customer offers, and the students choose the most appropriate project direction for them.

During the face-to-face classes, the students review their theoretical knowledge on project development, and link them with practice by preparing real project applications in teams.

The theoretical part of the face-to-face classes is illustrated with practical samples. The theoretical part includes such important topics as the basic activities in the project development process (project planning, mission and aims, project scope, time and task schedule, project management and monitoring, project team). Also, the students learn the basic rules for filling out the project application forms and submission regulations, study the sources of information for project funding programs, as well as learn about searching international, national partners and communication with them.

During the workshops students discuss their project ideas and search for project funding opportunities, selecting the most relevant ones for the implementation of their ideas. If necessary, under the leadership of the teacher, there are organized the creative thinking sessions (e.g. development of the project ideas, formulation of the project title, assessment of several project ideas and selecting the best one, etc.). Students are recommended to visit the national or international agencies, administrating different funding programs, and to learn communication with them and benefit from their advice.

**In the project planning phase**, the students define the project topic and develop the project concept; they agree on the team members and elect the team leader; students also plan the time for project development and the main activities, as well as assign responsibilities of the team members. In this phase it is important to understand the project funding sources and available funding. In the end of the planning phase, the student tams present the project concept in the class, and it is discussed with teacher and other classmates to clear all the questions.

**In the project initiating phase** the project is created. Students agree on the project concept, aims and expected results, methods, duration, resources. In this phase the students develop also the project work plan.

In this phase student teams meet individually, share their responsibilities. This phase includes both group work and individual work, where students learn to accomplish the intended tasks in time, as well as discuss the achieved results.

In this phase, the students also meet in a workshop in a class. During the workshops the students discuss and share their experience in cooperation with the agencies, and project application progress. If necessary, students use creativity techniques for development or assessment of the project ideas.

In the case of development of cooperation projects, students are supposed to organize the partner search, and communication with the potential project partners. Students learn about different partner search tools, but also they practically gain partnering communication skills. Especially valuable experience is the communication with cross-cultural partners.

**In the project working phase** the biggest part the project application is developed. If in the previous phase the students agreed on the concepts, terms and responsibilities, as well as the brief work plan, then in this phase they fulfil their duties according to the agreed. In this phase the major work for development of the project application is done. That requires the team work, individual work, tutorials with teacher and also with the relevant administrating agency experts.

In case of international projects, also the networking and communication with project partners has to be done. In this phase the students face most of difficulties, but at the same time the learning is the most effective. The teacher role is to support, motivate and encourage, as well as to point out the most visible mistakes. It is very important in this phase that the student groups meet and exchange experience, this way learning from each other.

**In the closing phase** the project application is developed and presented. Student groups come together to finalize the project application form, prepare the internship report and develop the internship review in a presentation form. During entire internship process, students fill in the internship diary, pointing out what, when and by whom was done, how long time did every activity take. During the Project Lab internship or after that, the students are supposed to submit the project application. At the end of the internship, the students provide the internship review in the format of PowerPoint presentation, covering the main project issues, challenges faced during the project, teamwork description and also a feedback on the internship as such. In the final workshop students present their projects, thus exchanging their experience and learning from each other.

#### **4.2. SUBSTANTIATION OF THE PROJECT LAB AND ANALYSIS OF THE PILOTING RESULTS**

The Project Lab concept and organisation described above, was developed on the basis of studies both of pedagogical benefits of the active learning to link theory and practice, as well as the study of the labour market needs and EU and national project funding opportunities.

Latvia as the Member of the European Union (EU) is implementing EU funded projects since 2004. According to the statistic data (Ministry of Finance, 2015), in the programming period 2007-2013 the largest financial instruments were ERDF, ESF and CF. In the programming period 2007-2013 Latvia has received EUR 4.53 billion through EU funds (ERDF, ESF and CF). In addition, Latvia also received financial resources within the framework of the European Community initiatives EQUAL and INTERREG, as well as other EU financed programmes. Most well-known of them are Youth in Action, Comenius, Erasmus, Leonardo da Vinci, Grundtvig, LIFE programme, Cross-border cooperation

programmes, European Economic Area Financial Mechanism and the Norwegian Financial Mechanism programmes, Latvian – Swiss cooperation programme.

Projects of these and other areas in the planning period 2007 – 2013 were submitted by public, private and non-governmental organisations (NGOs), groups of inhabitants, and individuals; however, in order to spend all of the available funds, quality of the project applications is a crucial precondition.

The wide offer of the EU and national funding programs was one of the main reasons for development of the Project Lab concept as the academic platform for development of project applications.

The authors of the paper have studied the first results of the Project Lab in RISEBA University, covering the time period from 2013-2015. All the research results are obtained analysing the student's Internship reports- project applications, diaries and internship report presentations, where students were asked to provide feedback on the Project Lab process and impact to their professional skills. From the moment the Project Lab was launched until 30 June 2015 forty students have been involved in the Project Lab and they have prepared 23 project applications. The total amount of project financing has reached 1'282'377 EUR.

Considering the EU offered options of the Structural Funds (SF) in Latvia, the majority of the projects developed in the Project Lab, are the SF funded projects.

Analysing the funding mechanisms of the Project Lab projects, the most popular funding mechanism within the Project Lab has been ERDF with 6 project applications, including 3 project applications for the sub-activity „Acquiring Foreign Markets – External Marketing“, 2 – for the sub-activity „Development of a network of family doctors“, and 1 – „Development of new products and technologies – supporting the launching of production of new products and technologies“.

In EAFRD program the students have developed 4 project applications, including 2 project applications for the activity „Modernisation of rural farms“, 1 – for the activity „Creating added value to agriculture products“, and 1 – for „Supporting investments in rural farms“.

Under the EEA and Norwegian Financial Mechanism, Youth in Action, Society Integration Foundation programs, state owned joint-stock company "Latvian Development Finance Institution Altum" (ALTUM), there were developed two project applications in each of them.

One project application was drafted for each of the following financial mechanisms and programmes: ESF, Climate Change Financial Instrument (CCFI), Lifelong Learning program, LATVIAN - SWISS Cooperation Programme, U.S. Embassy grant program.

The project applications covered various fields: business development, construction, marketing activities, development of new products, education, and youth activities.

52% of the project applications were developed for private entities, 20% – for non-governmental organisations (NGO), 20% – for RISEBA University, and 8% – for public authorities. The private entities include small and middle size enterprises, rural farms, individual merchants, and family practices, whereas the public sector was represented by municipalities and educational establishments. The private, public applicants and NGOs were mainly either the enterprises, including RISEBA University, employers, or external clients. The projects are represented from all types of legal persons. It is an acquirement for the students to understand differences among various projects and gain experience from each other.

In order to improve the Project Lab performance and its recognition in the project management education area, the study of the Project Lab as a service for external customers was made. The study highly appreciated the quality of the developed projects, and as a result,

it is considered to offer the Project Lab services to the external clients as a part of the official RISEBA University service portfolio.

Analyzing the Project Lab results, the authors realized that 52% of the Project Lab projects were developed individually by one student, while the rest – by student team.

52% of project applications are developed by the student teams from 2-4 persons. Students establish the teams, according to common interests or personal features, and while developing the project application they nominate the team leader, and gain remarkable teamwork experience and skills. 48% of students are individually responsible for project application preparation because working in business sector they prefer to develop a project application for their own companies. Those project teams include one student and employees from the company. During development of the project application the students are consulted by the Project Lab teacher thus contributing to the direct interaction of academic and real world.

A separate part of the study was devoted to analyse the Project Lab student's feedback. Students have pointed out the benefits, advantages as well as disadvantages of the Project Lab as a learning method. It is supposed that analysis of the feedback results and implementation of positive changes will lead to further improvements of the Project Lab.

During the studies of entire Project management program, the students acquire project management theory and various project management skills. In carrying out the tasks of Project Lab, the students indicated they had acquired new skills. Referring to types of skills defined by Price (2013) and based on student feedback it can be concluded that all of the listed skills are being trained:

**Technical skills.** During the planning stage, the development of the project application involves skills like estimating, resource scheduling, and financial management. For the development of project applications, students learn to plan meetings, manage risks related to project preparation, and draft a final report at the end.

According to the advantages listed by students, Project Lab helps in developing the technical skills as well. First of all, these are planning skills working with a real project within real settings, since most of the students have not had experience like this before. Project Lab students have come to the conclusion that planning takes a lot of time to draft a qualitative project application, and time shall be scheduled for revisions and internal communication of the final version of the application.

After the Project Lab, students are able to plan the budget, and are aware that the budget may change several times due to various internal and external factors. The financial plan of the project is very important. The students indicated that before engaging in the drafting of the project it is important to study the financial situation of a company to assess its suitability to the conditions of the project call. It is also important to verify, whether the company is able to implement the project and ensure its sustainability. Students indicated that along with the financial planning other resources should be planned as well – the assets and human resources. Timely planning the resources helps for successful planning of the budget.

**Managerial skills.** In order to start the development of the project application, the students should possess several managerial skills: communication skills, organization skills and self-organization, and processing forward the project, application of theoretical knowledge into practice. These skills are developed and applied during the whole Project Lab. Students learn also the decision-making skills, that are important to meet the project milestones and the schedule. During the whole Project Lab, the students train also the time management skills. The time management skills have several dimensions - management of students' own time and teamwork time in the cooperation with the customer, and also the planned time schedule of the project.

The students emphasize that the communication skills were trained the most. Communication should be precise, structured, well-considered, due, and involving all of the stakeholders. Students also pointed that the communication should be regular so that the information on the project concept, its structure, and other conditions is clear and understandable for all stakeholders. They recommend getting acquainted with the project implementation settings, since this helps in improving the quality of the project application.

Students noted that the stakeholders should be more interested in the implementation of the project idea. Most of the students stressed that the collection of information should be a highly responsible process. Documentation related to drafting the project application should be read carefully and fully understood – particularly the relevant laws and regulations, methodological materials, etc. Also, during the elaboration of the project the direct and open communication with the representatives from the managing authority is very important. Students noted they have had various experience – there were positive cases with joint solutions, and negative, when they failed to get answers to their queries that arose during the development of the project application.

An important skill the students acquired during Project Lab was the time management. Students pointed out that the development of a project application is teamwork, and any delays by a single team member affect the overall result. The teamwork and the project time management is strongly influenced by the external conditions – the availability of the EU funding programs and the chosen time period of the Project Lab. There is a high risk to launch the Project Lab activities in summer time, as there is a gap in the EU Funding availability and it is also a vacation time which impacts communication with relevant authorities and people. From the experience gained, the best timing for Project Lab activities is January – May.

Students indicated they have acquired new knowledge and experience in teamwork during the Project Lab. One of the key aspects is that a team should have one person in charge to delegate tasks, make decisions, and control the overall course of the project. Students noted that the team formed by students often lacks experience in theoretical issues of the project, and in such cases they have to work with an outsource.

Not all the projects launched in the Project Lab lead to a productive result, sometimes the started project fails. One of the main reasons is the lack of teamwork ability. The failure of the started project is a part of the learning process. A failure is a good matter to reflect on the reasons of it, to identify the gaps in the team work and also the Project Lab concept as such. It is important that also students take part in the failure analysis during the classes, and come to the conclusions about the crucial role of the team leader and team member harmony, ability to share tasks and responsibilities. At the same time, for the Project Lab organisers a failure case is a matter for the improvements of the Project Lab concept – to pay especially strong attention to the student teamwork, to monitor it and to identify any problems in the teamwork that may lead to a failure.

**Interpersonal skills.** The project management requires the technical and managerial skills such as planning, estimating, decision making, measuring, controlling, etc. When a subjective situation arises, a student needs various soft skills to decide on the appropriate direction of action. If all of the skills are not trained during the project application development, the students acquire them also during experience exchange with other student teams, presenting their projects during the Project Lab classes.

During the Project Lab the students improve their interpersonal skills. They indicated that it is important to remain positive also under high stress, and one shall not stop when facing difficulties and rejections. A project team should be flexible, ready to changes, and sometimes – unexpected turns. Students pointed out that the team leader should be able to motivate the team, but where a project is drafted by one person – it is important to be able to

control the situation. Team members should be open to each other, and according to student feedbacks the tasks carried out within Project Lab contribute to teambuilding at a high level.

Students have pointed out that during the Project Lab they improve both their **quantitative behaviours and qualitative behaviours**. Students use project management tools and techniques acquired during the study process and project application development. To draft a project application a problem should be defined and justified, activities, budget, time, human resources should be planned, sustainability of the project, risks, relation of the project with other projects and activities should be described, and thus the quantitative behaviours are trained.

Students also train qualitative behaviours:

- *Understanding the global environment.* In the development of project application the students learn to understand that the development of project application is not isolated from the real world. The student should study the field of the project application theme. In doing this, the students acquire also the qualitative behaviour, called seeing the bigger picture.
- *Understanding leadership.* The students understand the essence of this qualitative behaviour at the end of Project Lab, when they submit and present the project application. They point out in the presentation: at what moment the most input was necessary to reach the overall aim, when they had to motivate the project team, what challenges did they face and how did they solve them. This makes the students understand the essence and necessity of leadership in the project settings.
- *Understanding team dynamics and individual personalities.* Teamwork is analyzed before because 48% of the Project Lab projects were developed by student team, 52% – by one student and employees from the company. It is a great challenge for the students to cooperate in development of a common project application – to share the tasks and responsibilities, to implement them, to communicate and to come to a common consensus. It allows understanding of the team dynamics and evaluating what features of personality are important in project management. As mentioned before, the concept of the Project Lab allows making mistakes.
- *Understanding decision making.* Decision-making is among the key skills the students have to acquire during Project Lab. The students should become aware that each decision affects the result. First decisions made by the students individually are made already choosing the project topic and funding. After that the students make decisions regularly to move forward the development of the project application.
- *Understanding the business case for diversity and attendant inclusivity.* Each Project Lab project is developed for a real entity representing a particular industry. To ensure the competitiveness, innovativeness of the project application, and the practical added value of the project, the students study of the particular industry and summarize and review different parameters of the business.

From the observations of the authors of the article, there are no dominating learning styles, but as the most of the Project Lab results is a team work, usually a mixed version of different learning styles is applied, and leads to a successful implementation of the intended learning outcomes. Project Lab provides the practical training environment for development of new projects, turning project ideas into real project applications. The pedagogical concept of the Project Lab allows students to make experiments, to fail, and to learn from their mistakes. The pedagogical concept of the Project Lab is adjusted to all kind of students, with different backgrounds and experience, and for multidisciplinary teams. There are no methodological restrictions - everyone can use the specific experience and relevant

knowledge and skills to reach the intended learning outcome – ability to develop a real project application.

## CONCLUSIONS

Project Lab is a new and innovative concept for acquiring project management skills in Latvia.

The authors have answered the first research question – what are the advantages and learning benefits in the Project Lab, and what potential gaps might be in the organisation of the project Lab. Project Lab is closely linked to the practice – business and working world, during the learning process linking theory and practice. The project applications are developed for real entities, and they are based on real problem situations, utilizing real company resources and looking for productive and innovative solutions and leading to practically applicable results. This way the Project Lab is an excellent active and cognitive learning tool.

The Project Lab concept implies the dependence on the available EU funding programs. As the ESF and ERDF programs have recently had the biggest offer of the project calls, also in the Project Lab the students have developed the projects mainly in the programs co-funded by ESF and ERDF. The Project Lab gives a comprehensive insight in the funding programs, as well as strengthens the students' confidence on the importance of EU provided program and project financing tools.

Although the availability of EU project funding may be considered as an advantage in the implementation of the Project Lab, there is a very important risk for the Project Lab in long-term. The reduction or closing of the EU program funding may cause disturbances in the Project Lab realization. To avoid this risk, another one, modified concept of the Project Lab should be created, with similar aims but different funding options.

The study has provided answer to the second research question – how does the project Lab help students to acquire specific project management competences? The analysis of the study result present a set of essential project management skills that are gained and trained by students in the Project Lab, such as team work, communication, decision making. According to the authors' opinion, especially important is teamwork. About half of the analysed projects are developed in students' teams, but another half – by single students, in cooperation with the representatives of the customer company. According to the research results, those teams formed from several students reach higher results than the teams consisting of one student and non-student participants. This conclusion has driven to the improvements of the Project Lab concept according to the requirements for the team size for developing project applications.

All the parties involved in the Project Lab – students, teachers and clients are satisfied with the Project Lab concept and results. However, taking into account the study results and conclusions there are marked several areas for further improvements. Firstly, in order to improve the assessment of the Project Lab results, it is foreseen to develop an assessment for evaluation of the project management skills. The defined skills should be based on the IPMA Competence baseline. It is planned to use this assessment before and after the Project Lab to identify the learning progress, comparing the results. This way both the personal development and the efficiency of the Project Lab will be measured.

Another area for improvement is the development of the Project Lab monitoring system, implementing it during the current time of the Project Lab and following the project application submission process and the project evaluation success rate. Also these data will serve as the Project Lab efficiency indicator.



After the above mentioned improvements and their piloting, it is considered that in future the Project Lab services can be offered as outsourcing services for external clients.

## REFERENCES

1. Cordoba J.-R., Piki A., (2012), Facilitating project management education through groups as systems. *International Journal of Project Management*, Volume 30, 83-93.
2. Cresswell, J.W., (2013), *Qualitative Inquiry and Research Design: Choosing among five approaches* third edition. Sage Publications, USA.
3. Dale, E., (1969), *Audiovisual Means of Teaching*, available at: <http://eric.ed.gov/?id=ED043234> (accessed: 23rd August 2015).
4. Frank, M. & Barzilai, A. (2006). Project-based technology: Instructional strategy for developing technological literacy, *Journal of Technology Education*, 18(1), 39-53.
5. Fromm D., Trilling B., (2013), *Integrating Project Management Into CTE Programs, Techniques: Connecting Education & Careers*, Vol. 88, 10-11.
6. Ganiron T.U., (2014), The Impact of Higher Level Thinking on Students' Achievement toward Project Management Course, *International Journal of u- and e- Service, Science and Technology* Vol.7, 17-226
7. Lasauskiene J., Rauduvaite A., (2015), Project-Based Learning at University: Teaching Experiences of Lecturers, *Procedia - Social and Behavioral Sciences in 7th World Conference on Educational Sciences, (WCES-2015)*, , Greece , 788 – 792
8. *Management Study Guide*, (2008), *Desk Research - Methodology and Techniques*, available at: <http://www.managementstudyguide.com/desk-research.htm> (accessed: 15th August 2015).
9. Ministry of Economics of Republic of Latvia (2014), *Informative Report on Medium and Long-term Labour Market Forecasts*, available at: [https://www.em.gov.lv/files/tautsaimniecibas\\_attistiba/Gala\\_zinojums\\_ENG\\_Dorus\\_09\\_2013.pdf](https://www.em.gov.lv/files/tautsaimniecibas_attistiba/Gala_zinojums_ENG_Dorus_09_2013.pdf) (accessed: 25th August 2015).
10. Ministry of Finance of the Republic of Latvia (2015), *Programming Period 2007 – 2013*, available at: <http://www.esfondi.lv/page.php?id=658> (accessed: 25th August 2015).
11. Pant I., Baroudi B., (2008), Project management education: The human skills imperative, *International Journal of Project Management*, Volume 26, 124–128
12. Price J., (2013), Career paths in project management, Lock D., Scott L. (Ed.) *Handbook of People in Project management.*, Publisher: Gower Publishing limited, 771.
13. *Project Laboratory Course Specification* (2015), Riga International School of Economics and Business Administration.
14. *Project management institute (PMI)*, (2013), *Talent Gap Report - Project management between 2010+2020*, PMI, USA.
15. Ramazani J., Jergeas G., (2015), Project management and the journey from good to great: The benefits of investment in project management training and education. *International Journal of Project management* No.33., 41-52.
16. Rasanen M., Kyllonen A., (2013), *Research Hatchery as a cradle for new innovators*, Publisher: Turku University of Applied Sciences, Tampere.
17. Rogers A., (1996), *Teaching Adults*, 2<sup>nd</sup> ed., Publisher: Open University press, Buckingham.
18. Shariff S.M., Johan Z.J., Jamil N.A., (2013), Assessment of Project Management Skills and Learning Outcomes in Students' Projects. *Procedia - Social and Behavioral Sciences of 6th International Conference on University Learning and Teaching (InCULT 2012)*, Malaysia, 2013, 745 – 754.
19. Spinger L.M., (2013), *Project and program management: a competency-based approach*, 2nd ed., Publisher: Purdue University Press, USA.
20. Tong M., Thomson C., (2015), *Developing a Critical Literature Review for Project Management Research*, Passian B. (Ed.), *Designs, methods and Practices for Research of Project management*, Publisher: Gower Publishing Limited, 153 – 171.

# INTERACTION BETWEEN ORGANIZATIONAL CULTURE AND WORK ENGAGEMENT IN AN IT DEPARTMENT WITHIN FINANCIAL INSTITUTION

**Arturs Barbars**

*BA School of Business and Finance, K. Valdemara str. 161, Riga, Latvia*

[arturs.barbars@gmail.com](mailto:arturs.barbars@gmail.com)

## **Abstract**

Purpose of the study is to investigate the interaction between dominant organizational culture values and the level of work engagement in an IT department of one of the leading financial institutions in Baltic and Nordic countries.

### Design/methodology/approach

Research methodology includes monographic method, quantitative method, as well as correlation analysis.

### Findings

Research results show that organizational culture values oriented towards respect for individual's rights, as well as social responsibility correlate positively with multiple dimensions of work engagement. Such values as competitiveness and high expectations for performance correlate negatively with work engagement.

### Research limitations

Multiple research limitations are applicable to the study. The study only covers two teams of an IT department within one financial institution. The study only covers a part of internal environment of the organization – organizational culture and work engagement. Research period is from May to September of 2015.

### Practical implications

Research results provide managers with information about how different organizational culture values are related to level of work engagement. Based on the research results, managers will be able to make more informed decisions in regards to which cultural values need to be encouraged, and which reduced in order to improve work engagement within their organizations.

### Originality/value

Even though organizational culture is widely studied in management science, and work engagement has also become an actual topic among management researchers during the recent years, currently there are very few studies on interaction between organizational culture and work engagement. There is a lack of knowledge, what impact different organizational culture values have on work engagement. This study, therefore, provides an insight in interaction between specific organizational culture values and the dimensions of work engagement.

Keywords: Organizational culture, work engagement, leadership.

## **1. INTRODUCTION**

Organizational culture is generally defined as a set of values and beliefs shared among the members of an organization, which has a major impact on their decisions and behaviour – the ways in which things are done. During the past decade interest in organizational culture from practitioners in particular continues to be relatively high. The level of interest from practitioner side is to some extent connected to industry. In younger, more innovative and knowledge-intensive businesses there seems to be a stronger interest than in more mature and rationalization-oriented ones. Many information technology (IT) companies, for example, are credited with developing and sustaining distinct organizational cultures (Alvesson, 2012). Pfeffer (1994) argues that the traditional sources of success - product and process technology, access to regulated markets, economies of scale, etc. - matter less today than in the past, leaving organizational culture and capabilities derived from how people are managed, as relatively more vital. Compared to technology, which becomes more available and thereby reduces as a source of competitive advantage, human capital is much more difficult to imitate for competitors (Macey, Schneider, Barbera, Young, 2009). By the time the superior

performance the organizational culture produces comes to the attention of competitors and the public, the culture is well established and doing its job (Heskett, 2012).

Work engagement is a relatively new concept in management science. One of the reasons why it has become a live topic among business leaders is the increased focus on human capital as a source of competitive advantage. Work engagement is mainly defined as a goal oriented psychological state, in which a person is fully focused on the task at hand, necessary to reach the organizational goals. Work engagement is often mentioned among sources of increased employee commitment and performance, as well as customer satisfaction (Albrecht, 2010).

Work engagement can only be created and sustained when it is supported by the culture of the organization (Macey et al., 2009). Most organizations can create bursts of energy and contribution among their employees in the short term by the use of approaches other than work engagement. On the other hand, building a culture of engagement takes effort. However, once established it will sustain high performance in the organization over time (Rice, Marlow, Masarech 2012). However, organizations and leaders need to know, which organizational culture values foster or limit work engagement in order to encourage the right values that would lead to the organizational goals. Purpose of this study therefore is to find the relation between specific organizational culture values and dimensions of work engagement.

## 2. THEORETICAL FRAMEWORK OF THE RESEARCH

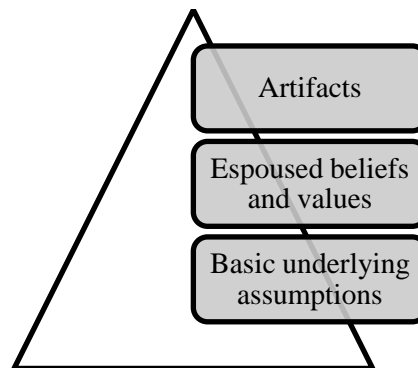
### *Organizational culture*

Culture as such is a tricky concept, as it is easily used to cover everything and consequently nothing (Alvesson, 2012). It is defined as "the set of important understandings (often unstated) that members of a community share in common" (Sathe, 1983, 6), as well as deeply rooted values or shared norms, moral or aesthetic principles that guide action and serve as standards to evaluate one's own and others' behaviors (Hofstede, 1994). According to Parsons (1951), cultural tradition emerges around values, which are defined as elements of a shared symbolic system which serves as a criterion or standard for selection among the alternatives of orientation, which are intrinsically open in a situation. Similarly, Rokeach (1973, 5) argues that "a value is an enduring belief that a specific mode of conduct or end-state of existence is personally or socially preferable to an opposite or converse mode of conduct or end-state of existence". Values are defined as ideas and objects with a special meaning on the individual as well as organizational level (Dubkevics, 2009). Values determine basic assumptions about the reality, human nature, and relationships (Dubkevics, Barbars, 2011).

Alvesson (2012) argues that organizational culture is one of the main issues in academic research of organizational theory, as well as in management practice. Even in organizations, where cultural issues receive little explicit attention, ways in which people think, feel, value and act, are guided by ideas, meanings and beliefs of the socially shared culture. There are dozens of organizational culture definitions in management literature. One of the most commonly used definitions is written by Edgar Schein. Schein (2010, 18) defines the organizational culture as "a pattern of shared basic assumptions learned by a group as it solved its problems of external adaptation and internal integration, which has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems". The definition is based on the analysis of several other definitions, and is also used as the working definition in this study.

Schein (2010) defines three levels of organizational culture (see figure 1):

- 1) artifacts,
- 2) espoused beliefs and values,
- 3) basic underlying assumptions.



**Figure 1.** Levels of organizational culture

*Source: Schein (2010)*

Artifacts include visible and feelable structures and processes, as well as observed behaviour. They are difficult to decipher. Espoused beliefs and values are ideas, goals, values, aspirations, ideologies, and rationalizations. They may or may not be congruent with behaviour and other artifacts. Organizational culture is based on the basic underlying assumptions, which are unconscious, taken-for-granted beliefs and values, which determine behaviour, perception, thought, and feeling.

Since the basic elements of any organizational culture are the underlying assumptions and values, some authors try to determine the values that are generally good - beneficial to any culture. According to Baker (1980), good cultures are characterised by norms and values supportive of excellence, teamwork, profitability, honesty, customer service orientation, pride in one's work, commitment to the organization, and adaptability - the capacity to thrive over the long run despite new competition, new regulations, new technological developments, and the strains of growth. Most researchers, however, agree that there are no good or bad cultures per se. A set of values is good - effective - if it reinforces the mission, purposes and strategies of the organization. It can be an asset or a liability. To be effective, the culture must be appropriate to the needs of the business, company and employees (Wallach, 1983, Heskett, 2012). In addition, organizational culture is not homogeneous; it consists of subcultures. Dubkevics (2009) defines subculture as a relatively independent set of values, norms, and behavioural stereotypes, which exists in an organizational culture and is not in contradiction with it. Each subculture can have a slightly different reaction on management interventions. A type of subculture that may become even more troublesome for management efforts is the counterculture, which includes values that are opposite to the overall organizational culture and become an obstacle to the work of the organization (Miķelsone, Mackevica, Olehnovica, 2008).

#### *Work engagement*

Term *engagement* was first used in relation to work by the business consulting firm the Gallup Organization. The first academic article on engagement at work was published by Kahn (1990) in the *Academy of Management Journal*, but it took a decade before the topic was picked up by others in academia (Schaufeli, 2014). Work engagement is one of the key predictors of organization's performance, financial and otherwise (Heskett, 2012). Individual employee behaviours determine organization's collective success over time. Performance is a

sum of what every employee does every day across the organization. Each individual's behaviour in turn is influenced by the organization – its structure, decisions, motivators and information (Baron, 2006).

Engagement is mainly expressed in such employee behaviours as efforts at work. When people are engaged, they stay focused on their tasks and work hard to accomplish the goals. They fully inhabit their job roles, instead of just doing their work. Engaged employees are very present in doing their work (Kahn, 1992). They strive to move their work forward and put energy into that (Schaufeli & Bakker, 2004). When employees are engaged, they do not simply show up at work and follow routines. They place their ideas and feelings in solving the problems they are dealing with (Kahn, 2010). Engagement is described as the ability to bring all of who we are into our roles (Smith, Berg, 1987). According to Macey and his colleagues, engaged employees behave in more persistent ways, respond proactively to emerging threats and challenges, expand their roles at work, and adapt more readily to change (Macey et al., 2009).

One of the most often quoted definitions of work engagement belongs to Schaufeli and his colleagues, who define it as “a positive, fulfilling, work-related state of mind that is characterized by vigor, dedication, and absorption” (Schaufeli, Salanova, Gonzalez-Roma, Bakker, 2002, 74). Kahn (1990, 694), who is largely credited with introducing the concept of personal engagement at work, defines work engagement as “the harnessing of organization members’ selves to their work roles; in engagement, people employ and express themselves physically, cognitively, and emotionally during role performances.” These two definitions of work engagement are used as working definitions in the study conducted as a part of this paper.

#### *Interaction between organizational culture and work engagement*

Scherbaum and his colleagues identified organizational culture as one of the main factors for work engagement during the key driver analysis (Scherbaum, Putka, Naidoo, Youssefnia, 2010). Effective organizational culture leads to work engagement, and has a significant influence on performance (Heskett, 2012).

According to Macey et al. (2009), organizational culture determines work engagement in two ways:

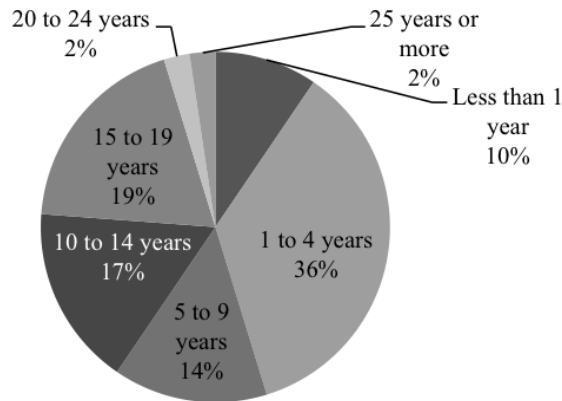
- 1) how it creates and releases employee energy through the way they are treated;
- 2) how it channels that energy into competitive advantage through focus on the strategic objectives of the organization.

The more employees internalize and identify the values and goals of the organization they work in, the more likely they will feel engaged at work. Thus, organizational practices that effectively convey the values of the organization to all employees, and involve them with the goals of the organization, result in more engaged employees, which ultimately leads to more positive behaviors at work (Bindl, Parker, 2010).

### **3. RESEARCH METHODOLOGY**

Study described in this paper was conducted in one of the leading financial institutions in Baltic and Nordic countries. Research period is from May to September of 2015. Two teams within an IT department of the organization participated in the study, which for confidentiality purposes will be called Team A and Team B in this paper. In total 42 respondents (21 per each team) filled in the survey questionnaires. Total number of employees in Team A is 21, while in team B it is 22. Therefore 98% of total number of employees of the two teams participated in the study. Each of the teams have slightly different responsibilities, its own manager and they are located in different offices, therefore each team

can be considered to be a separate subculture. Majority of respondents were aged from 35 to 44. Most of participants (36%) were working for the organization for 1 to 4 years at the moment when the research data was collected. More details about number of years respondents were working for the organization is displayed in figure 2. 74% of respondents were men.



**Figure 2.** Number of years respondents are working for the organization

The following research instruments were used in the study:

1) Organizational culture profile (OCP)

Instrument used to assess the organizational culture in this study is the Organizational Culture Profile (OCP) by O'Reilly, Chatman, and Caldwell (1991), which is one of the most commonly referenced cultural assessment tools in the academic literature (Ehrhart, Schneider, Macey, 2014). Team A filled in the original version of the questionnaire. This version of the instrument uses Q-Sort method of data collection. Respondents are introduced to 54 organizational culture values and asked to evaluate to what extent, based on their opinion, each of the values describe their organization. Respondents fill in the survey by writing the number assigned to each of the values in a row of nine categories, placing at one end of the row those values that they consider most characteristic aspects of their organization, and at the other end those that are least characteristic. Due to use of Q-Sort method, the original version of OCP is relatively time consuming and complicated for respondents to fill in, and also for researchers to analyse the data.

2) Organizational Culture Profile - Revised edition (OCPR)

Team B filled in the revised version of the Organizational Culture Profile instrument (OCPR) by Sarros, Gray, Densten, and Cooper (2005). Due to complexity caused by the use of Q-Sort data collection in the original version of OCP, Sarros et al. (2005) introduced a revised version of the instrument. As a part of this version respondents are introduced to 28 organizational culture values that may describe an organizational culture. The 28 values are divided into 7 groups – 4 values per group. The groups are: competitiveness, social responsibility, supportiveness, innovation, emphasis on rewards, performance orientation, and stability. Respondents are asked to evaluate how much each of the values describe their organization, by choosing a number from 1 (not at all) to 5 (very much) in a 5 point Likert scale.

Purpose of using two versions of the Organizational Culture Profile is to determine, whether both versions of the instrument would show similar results when applied to measure the dominant organizational culture values within the same culture, even though the two versions were used in slightly different subcultures. In case the organizational culture profile

measured by two different instruments is similar, it is recommended to use the revised edition of the instrument for further studies, in order to make it more convenient for respondents to fill in the survey questionnaire.

### 3) Utrecht work engagement scale (UWES)

The Utrecht Work Engagement Scale (UWES) is by far the most popular measure of work engagement in academic literature (Byrne, 2015). It was developed by Schaufeli and Bakker (2003). The instrument is based on Schaufeli et al.'s (2002) definition of work engagement and measures the three dimensions of engagement: vigor, dedication, and absorption. This definition is one of the working definitions of work engagement used in this study.

The UWES is a self-report questionnaire where respondents are asked to assess the frequency with which they experience each of the 17 items of the questionnaire in their daily work. Out of the 17 items, 6 are related to work engagement dimension - vigor, 5 to dedication and 6 to absorption. Respondents are asked to evaluate, how often they experience the feeling described in each of the 17 items from 0 (never) to 6 (always / every day).

### 4) Job Engagement Scale (JES)

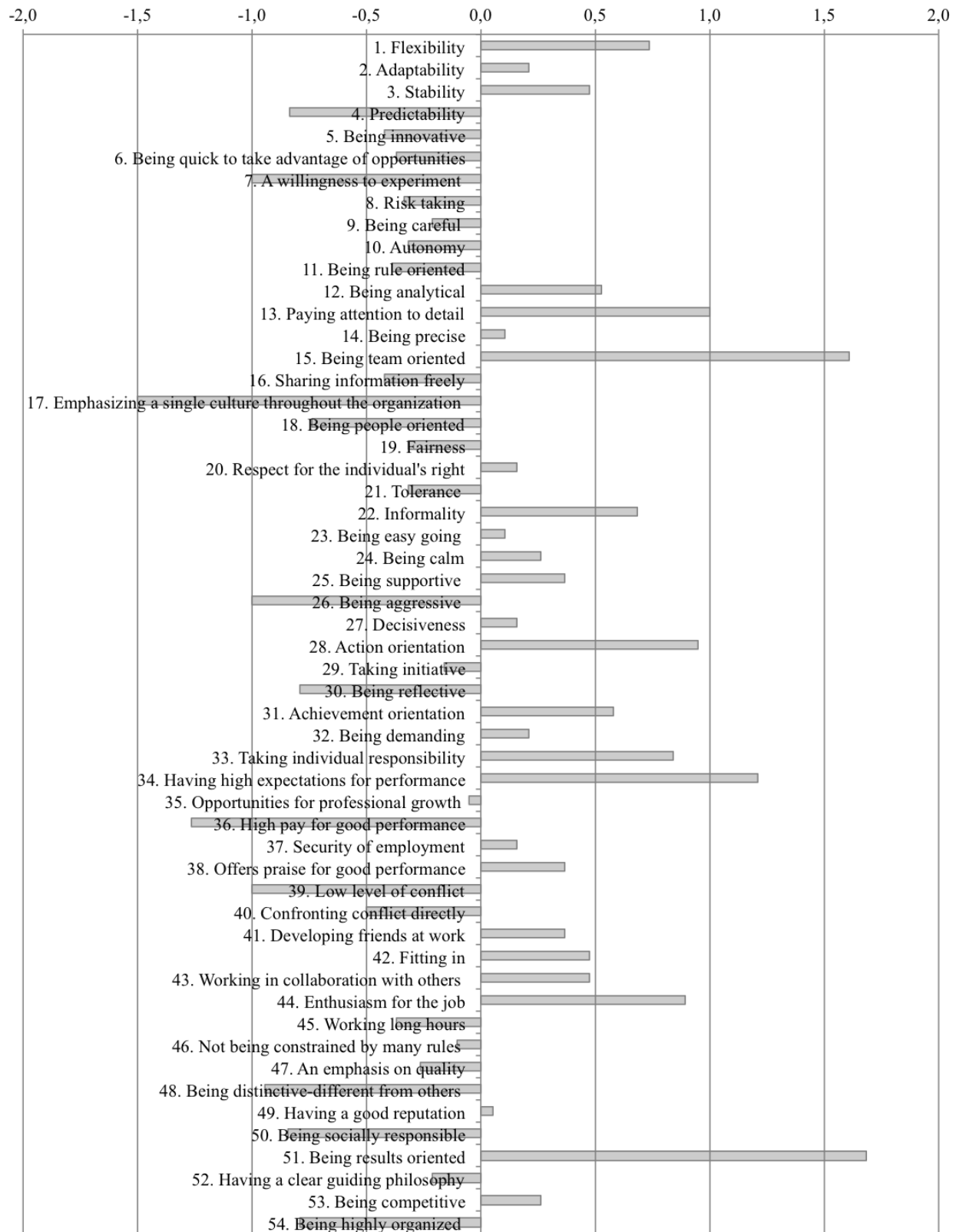
The second measure of work engagement used in this study is the Job Engagement Scale (JES), which was produced by Rich, LePine, and Crawford (2010). This instrument measures engagement based on Kahn's (1990) definition of work engagement, which distinguishes between 3 dimensions of engagement – affective, cognitive, and physical. This is the second definition used as the working definition of work engagement in this study. The Job Engagement Scale consists of 18 items – 6 per each dimension, where respondents are asked to evaluate, how much they agree with statements presented in each of the items in scale from 1 (strongly disagree) to 5 (strongly agree) in a Likert type scale.

Respondents representing Team A filled in the printed version of OCP, while respondents in Team B filled in the OCPR in an internet based survey data collection tool. In addition, both teams filled in UWES and JES in the online tool. During the analysis of research results, organizational culture profile, as well as level of work engagement in each of the two teams was assessed and correlation coefficient  $r$  between the items of organizational culture measurement instruments and work engagement measurement instruments calculated.

## 4. ANALYSIS OF RESEARCH RESULTS

### *Organizational culture*

Results of the organizational culture analysis in Team A subculture are summarized in figure 3. Dominant values in this subculture were determined by using the original version of OCP.



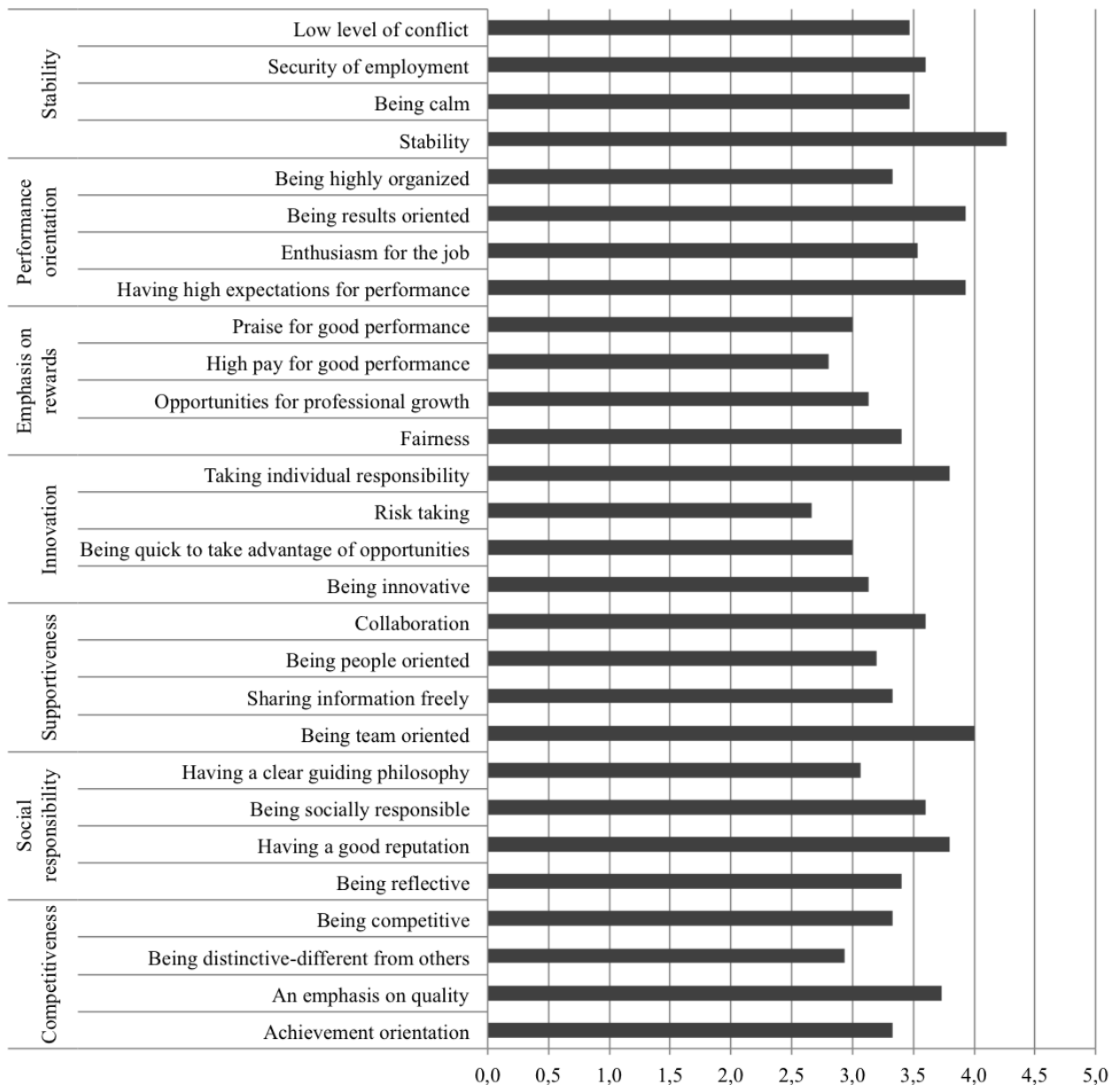
**Figure 3.** Organizational culture profile in Team A subculture (assessed by using OCP)

Based on research results, culture in Team A is mostly characterized by focus on performance and external competition. It is a results oriented team with emphasis on team work and collaboration. The organization accepts cultural variety, as there is no emphasis on a single culture. Other values that



are less characteristic to Team A, include willingness to experiment and strive for innovation. This in a way is related to the fact that the organization is a part of financial institution, where stability and predictability are valued higher than risk-taking.

Organizational culture profile in Team B subculture is summarized in figure 4. The culture within this organization is mainly characterized by stability and performance orientation. At the same time Team B is less oriented towards innovation and risk taking. Similarly to Team A, emphasis on rewards receives little attention here.

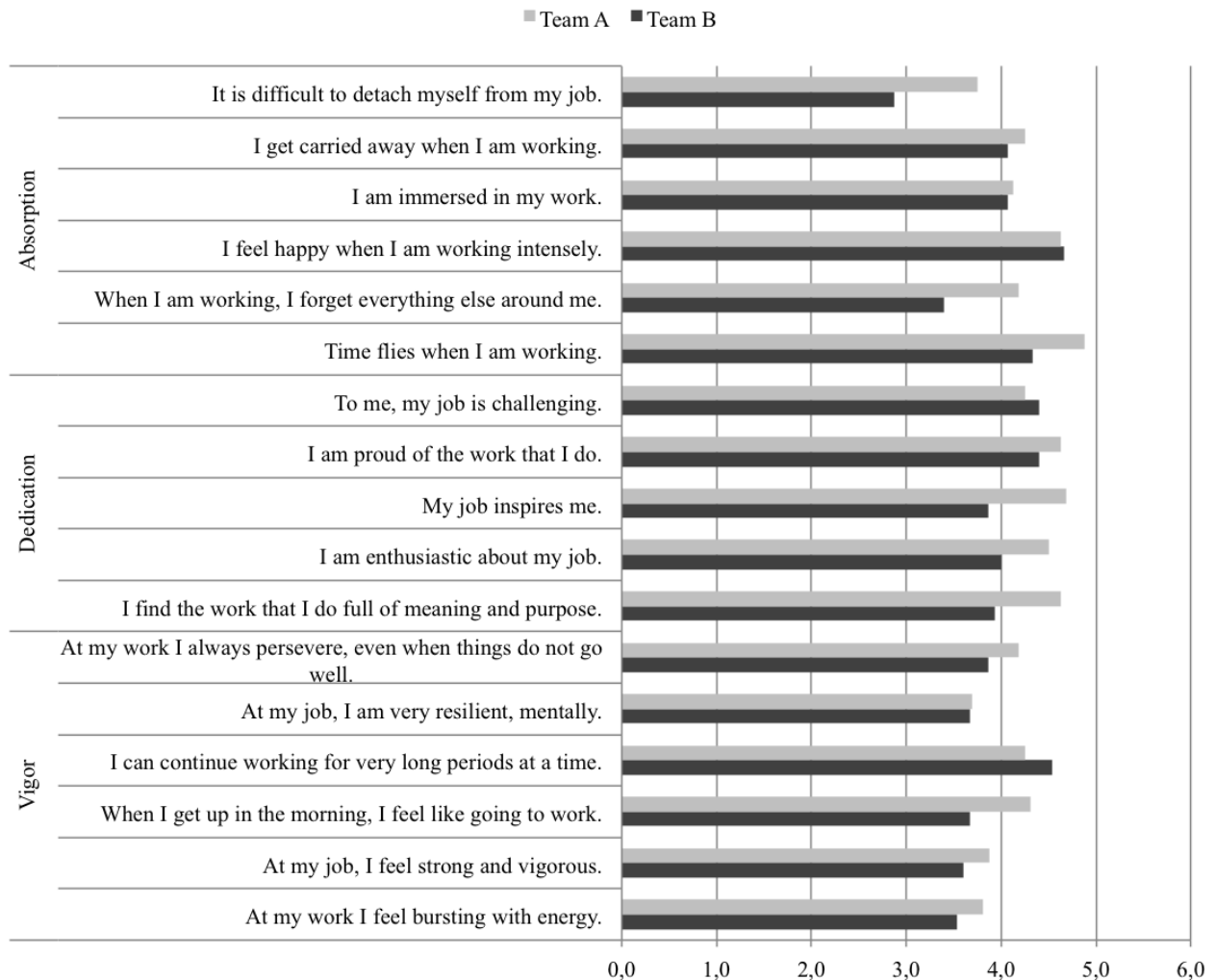


**Figure 4.** Organizational culture profile in Team B subculture (assessed by using OCP)

It can be concluded, that organizational culture profiles in Team A and Team B subcultures are very similar. Organizational culture in both teams is based on stability, collaboration, and emphasis on performance – values that generally can be associated with financial institutions. At the same time both subcultures put less emphasis on innovation and risk-taking.

### Work engagement

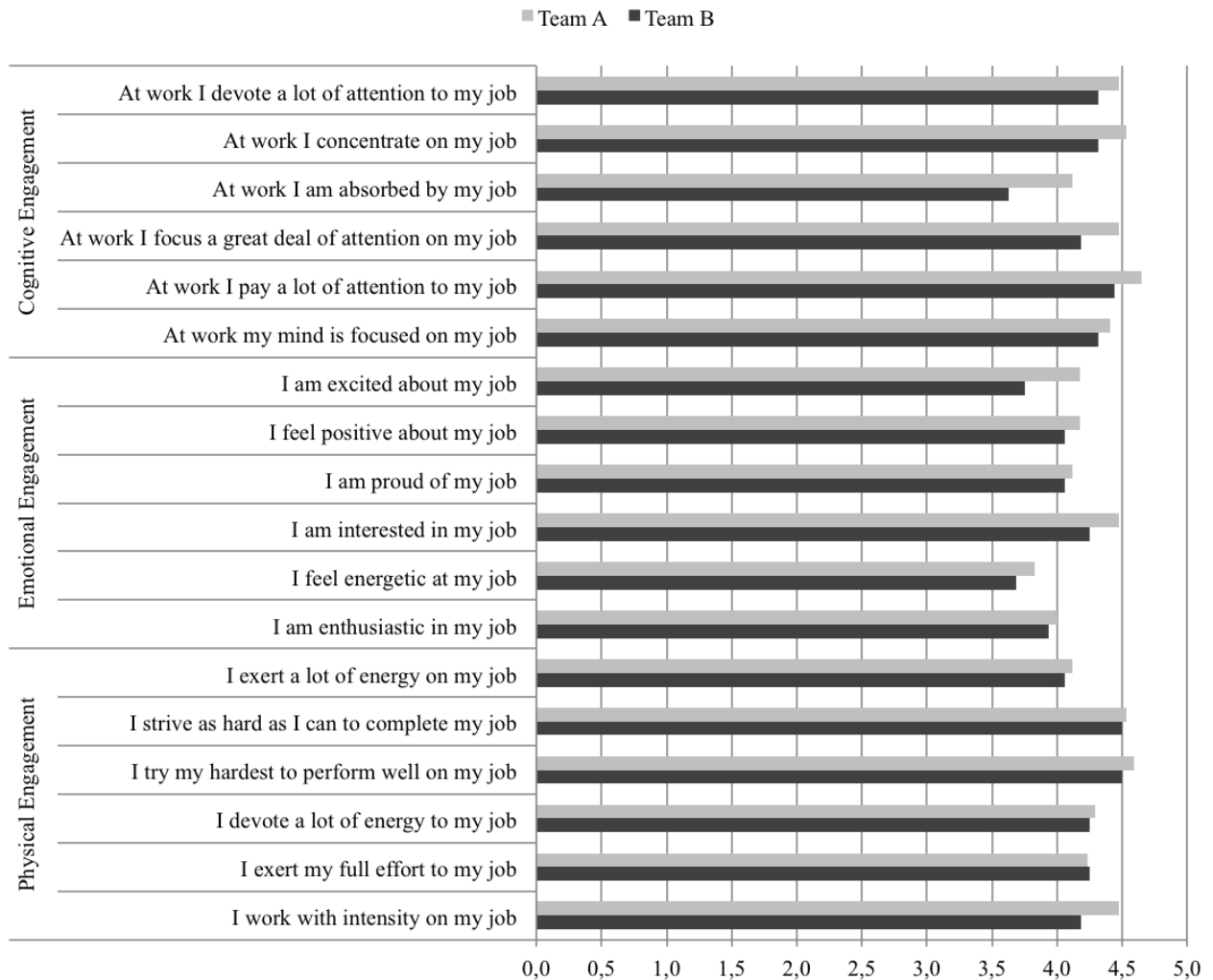
Based on analysis of results of work engagement questionnaire – UWES (figure 5), Team A is reporting high levels of work engagement in all three dimensions - vigor, dedication, and absorption. Scores are especially high for the dedication dimension, which means that team members find their work challenging, purposeful and inspiring. Employees are familiar with goals of the organization and associate them as their own personal goals.



**Figure 5.** Work engagement in Team A and Team B (assessed by using UWES)

Levels of different dimensions of work engagement in Team B range from average to high. Similarly to Team A, dedication has received relatively higher scores than other two dimensions of work engagement (vigor and absorption). In general, members of Team B experience less energy in their daily work, however, when they have an opportunity to work intensely, they are able to do so for extended periods of time and feel proud of the results.

According to results of JES questionnaire (figure 6), the level of work engagement in Team A is high in all three dimensions – physical, emotional, and cognitive. Similarly to results of UWES, Team B reports relatively lower level of engagement than Team A, even though, in general, the overall level of engagement is high in both teams. Both teams report slightly lower scores in the emotional engagement, compared to other two levels of work engagement – physical and cognitive.



**Figure 6.** Work engagement in Team A and Team B (assessed by using JES)

#### *Correlation analysis*

Pearson's correlation coefficient  $r$  was calculated between the items of OCP and UWES, OCP and JES, OCP and UWER, OCP and JES in order to find the relationship between specific organizational culture values and characteristics / dimensions of work engagement. In interpreting the significance of the correlation coefficients, guide suggested by Evans (1996).

#### 1) OCP – UWES

Such organizational culture values as respect for individual's rights and social responsibility show moderate to high correlation with all three dimensions of work engagement – vigor, dedication, and absorption. Other organizational culture values that correlate positively with different dimensions of work engagement include being highly organized as well as being easy going. On the other hand, values as action orientation, high expectations for performance, as well as being quick to take advantage show moderate negative correlation with all three dimensions. Please see table 1 for more details. Significant positive correlations are highlighted with white figures on black background, while significant negative correlations are highlighted with black figures on white background.

Table 1

**Correlation between items of organizational culture dimensions measured by OCP and items of dimensions of work engagement measured by UWES**

	Vigor					Dedication					Absorption						
1. Flexibility	-0,03	-0,24	-0,19	-0,38	0,05	-0,31	-0,18	-0,27	-0,17	-0,04	-0,04	0,13	-0,23	-0,08	0,10	-0,19	-0,05
2. Adaptability	-0,12	-0,31	-0,32	-0,30	-0,01	-0,26	-0,15	-0,16	-0,21	-0,08	-0,28	0,42	-0,17	-0,02	-0,01	-0,16	-0,21
3. Stability	-0,55	-0,47	0,03	-0,17	0,02	-0,29	-0,17	-0,31	-0,07	-0,22	-0,31	0,00	-0,12	-0,30	-0,03	-0,07	0,24
4. Predictability	-0,17	-0,17	0,24	-0,16	0,00	-0,46	-0,04	-0,20	-0,18	0,05	-0,57	0,06	-0,37	-0,14	0,11	-0,18	-0,15
5. Being innovative	-0,37	-0,15	0,14	-0,14	0,13	-0,06	0,08	0,06	-0,03	0,27	-0,12	-0,50	-0,19	-0,12	0,31	-0,09	-0,05
6. Being quick to take advantage of opportunities	-0,06	-0,37	-0,36	-0,38	-0,20	-0,65	-0,22	-0,39	-0,41	-0,15	-0,54	0,14	-0,55	-0,06	-0,04	-0,64	-0,45
7. A willingness to experiment	-0,43	-0,27	-0,07	-0,19	0,13	-0,06	-0,10	-0,02	-0,04	0,07	-0,13	-0,62	-0,08	-0,18	0,21	-0,12	0,03
8. Risk taking	0,20	0,26	0,15	-0,22	-0,46	0,05	0,00	0,16	-0,45	-0,18	-0,02	0,06	-0,19	-0,17	-0,51	-0,32	-0,42
9. Being careful	0,13	0,15	-0,16	0,30	-0,29	0,12	0,07	-0,08	0,14	-0,36	0,49	-0,02	0,48	-0,14	-0,29	0,05	0,26
10. Autonomy	-0,05	0,19	0,01	0,05	-0,01	0,19	-0,12	0,03	0,04	0,00	0,16	0,29	0,03	-0,09	-0,14	0,30	0,05
11. Being rule oriented	-0,39	0,10	0,09	-0,58	-0,25	-0,23	-0,30	0,02	-0,59	0,00	-0,55	0,15	-0,27	-0,24	-0,11	-0,06	-0,21
12. Being analytical	-0,21	0,19	0,09	-0,21	-0,06	0,15	-0,06	0,14	-0,19	0,02	0,11	0,17	0,18	-0,28	-0,07	0,34	0,08
13. Paying attention to detail	-0,04	0,25	0,24	0,01	0,51	0,21	-0,24	0,12	0,22	0,14	0,20	-0,04	-0,02	-0,08	0,25	0,55	0,22
14. Being precise	-0,14	0,08	0,08	-0,35	-0,01	0,05	-0,28	-0,04	-0,11	-0,01	-0,31	0,33	0,27	-0,04	-0,06	0,43	0,29
15. Being team oriented	0,18	-0,11	0,34	0,04	-0,26	-0,19	0,20	-0,08	-0,46	-0,01	-0,41	0,19	-0,59	-0,14	-0,35	-0,36	-0,34
16. Sharing information freely	0,65	0,32	0,33	0,34	-0,04	0,33	0,16	0,28	0,00	-0,11	0,10	0,24	-0,12	0,19	-0,43	-0,02	-0,25
17. Emphasizing a single culture throughout the organization	0,16	0,08	-0,13	0,02	0,05	0,20	0,29	0,22	0,25	0,29	0,06	0,40	0,52	0,47	0,28	0,24	0,16
18. Being people oriented	0,24	0,09	0,23	0,28	0,12	0,24	0,19	0,25	0,22	0,26	-0,12	-0,14	0,04	0,32	0,07	0,16	-0,11
19. Fairness	0,24	0,20	0,21	0,26	0,07	0,20	0,12	0,16	0,28	-0,12	0,09	0,00	0,40	0,05	-0,09	0,16	0,16
20. Respect for the individual's right	0,41	0,44	0,31	0,49	0,34	0,59	0,36	0,56	0,59	0,29	0,25	0,16	0,51	0,72	0,27	0,43	0,27
21. Tolerance	-0,13	0,27	0,20	-0,07	0,45	0,11	-0,25	0,25	0,36	0,11	-0,21	-0,14	0,20	0,15	0,34	0,30	0,11
22. Informality	-0,17	-0,36	-0,23	0,42	0,23	0,08	0,03	-0,28	0,26	0,20	-0,01	-0,32	-0,05	-0,13	0,16	0,27	0,19
23. Being easy going	0,58	0,07	0,21	0,65	0,32	0,46	0,28	0,15	0,52	0,22	0,41	-0,09	0,00	0,46	0,03	0,27	0,11
24. Being calm	0,08	0,19	0,22	0,17	-0,11	0,30	0,05	0,22	0,12	0,08	-0,06	0,02	0,08	0,29	-0,16	0,14	0,02
25. Being supportive	0,13	0,16	0,42	0,24	0,21	0,11	0,13	0,08	0,19	0,12	0,14	0,36	-0,03	-0,04	0,03	0,43	0,08
26. Being aggressive	-0,01	-0,24	-0,41	-0,19	-0,57	-0,27	0,21	-0,20	-0,37	-0,06	-0,01	0,08	0,07	-0,11	-0,18	-0,42	-0,23
27. Decisiveness	-0,03	-0,17	-0,13	-0,16	-0,28	0,16	-0,25	-0,05	-0,04	-0,45	0,17	0,16	0,10	0,02	-0,54	-0,13	0,05
28. Action orientation	-0,35	-0,21	0,06	-0,30	-0,69	-0,42	-0,09	-0,37	-0,73	-0,50	-0,26	0,23	-0,40	-0,66	-0,66	-0,51	-0,16
29. Taking initiative	-0,01	0,43	0,16	-0,41	-0,22	-0,03	-0,08	0,37	-0,29	-0,15	0,02	0,17	-0,07	-0,07	-0,17	-0,32	-0,43
30. Being reflective	-0,46	-0,06	0,00	-0,46	-0,40	-0,22	-0,31	-0,15	-0,48	-0,37	-0,15	-0,25	-0,14	-0,37	-0,30	-0,31	0,07
31. Achievement orientation	-0,12	-0,27	0,02	-0,18	-0,44	-0,33	-0,21	-0,36	-0,59	-0,42	-0,05	0,01	-0,58	-0,67	-0,63	-0,35	-0,36
32. Being demanding	0,09	0,01	-0,23	-0,09	-0,45	-0,34	0,25	-0,21	-0,23	-0,03	0,35	0,21	-0,03	-0,26	-0,08	-0,32	-0,30
33. Taking individual responsibility	0,17	0,25	-0,02	-0,27	-0,03	0,19	-0,33	0,17	0,03	-0,42	0,11	0,09	0,31	0,27	-0,24	-0,10	0,24
34. Having high expectations for performance	-0,45	-0,35	-0,34	-0,69	-0,55	-0,41	-0,51	-0,49	-0,63	-0,56	-0,29	0,17	-0,07	-0,51	-0,51	-0,31	0,10
35. Opportunities for professional growth	-0,10	-0,30	-0,52	-0,20	0,12	-0,37	-0,53	-0,36	0,05	-0,37	-0,20	-0,27	-0,10	-0,10	0,00	-0,30	-0,09
36. High pay for good performance	-0,46	-0,44	-0,68	0,07	0,04	-0,09	-0,32	-0,47	0,04	-0,22	0,24	-0,50	0,17	-0,54	0,01	0,15	0,27
37. Security of employment	0,15	0,03	-0,05	0,37	0,44	0,20	0,03	-0,06	0,46	0,40	0,10	-0,23	0,25	0,23	0,45	0,61	0,37
38. Offers praise for good performance	0,00	0,14	-0,11	0,26	0,17	0,39	-0,17	0,15	0,48	-0,32	0,42	0,12	0,60	0,06	-0,15	0,41	0,34
39. Low level of conflict	0,22	0,24	0,08	0,51	0,43	0,41	0,10	0,28	0,47	0,15	0,05	0,02	0,27	0,37	0,21	0,40	0,22
40. Confronting conflict directly	0,29	-0,17	-0,02	0,00	-0,54	-0,08	0,15	-0,06	-0,41	-0,30	-0,17	-0,02	-0,03	0,09	-0,46	-0,55	-0,08
41. Developing friends at work	0,43	0,18	0,30	0,47	0,46	0,18	0,49	0,29	0,60	0,50	0,42	0,33	0,03	0,42	0,46	0,33	-0,17
42. Fitting in	0,24	-0,14	-0,31	0,48	0,04	0,26	0,21	-0,07	0,45	-0,05	0,65	0,03	0,31	0,11	-0,06	0,14	0,10

(Table 1 Continued)

43. Working in collaboration with others	-0,37	-0,36	-0,13	-0,02	0,23	-0,23	-0,10	-0,30	0,10	0,04	-0,27	-0,03	-0,08	0,01	0,30	0,00	0,36
44. Enthusiasm for the job	-0,27	-0,38	-0,32	-0,16	-0,08	-0,52	-0,31	-0,47	-0,25	-0,41	0,00	-0,35	-0,51	-0,41	-0,11	-0,60	-0,15
45. Working long hours	-0,22	-0,31	-0,52	0,00	0,19	-0,11	-0,20	-0,23	-0,05	-0,01	0,30	-0,51	-0,25	-0,28	0,19	-0,09	-0,11
46. Not being constrained by many rules	0,27	-0,09	-0,21	0,32	0,21	0,07	-0,03	-0,19	0,15	0,15	0,30	-0,44	-0,29	0,02	0,11	0,03	-0,05
47. An emphasis on quality	-0,07	0,28	0,39	-0,26	0,19	-0,22	0,08	0,16	0,04	0,17	-0,15	-0,08	0,03	0,05	0,43	-0,08	0,08
48. Being distinctive-different from others	0,47	0,08	-0,01	0,09	-0,01	0,46	-0,14	0,13	0,02	-0,22	0,43	-0,22	0,06	0,16	-0,43	0,11	0,06
49. Having a good reputation	-0,16	0,02	0,21	0,11	0,22	-0,02	0,33	0,23	0,21	0,44	-0,21	0,40	-0,09	0,30	0,42	0,09	-0,13
50. Being socially responsible	0,10	0,34	0,01	<b>0,55</b>	<b>0,54</b>	<b>0,58</b>	0,08	0,27	<b>0,73</b>	0,31	0,34	-0,08	<b>0,65</b>	0,39	0,44	<b>0,82</b>	<b>0,60</b>
51. Being results oriented	-0,02	0,04	0,05	-0,28	-0,47	-0,21	0,35	0,20	-0,41	0,08	-0,29	0,34	-0,19	0,16	-0,09	-0,60	-0,48
52. Having a clear guiding philosophy	0,19	0,03	0,13	0,20	0,42	0,17	-0,10	-0,02	0,14	0,23	-0,07	-0,71	-0,17	0,05	0,24	0,19	0,20
53. Being competitive	0,14	0,37	0,23	0,21	-0,07	0,07	<b>0,75</b>	0,41	0,24	<b>0,62</b>	0,01	0,33	0,38	0,40	0,50	0,06	-0,12
54. Being highly organized	-0,02	0,36	0,43	0,09	0,20	-0,04	<b>0,51</b>	0,30	0,12	<b>0,66</b>	-0,27	0,01	0,07	0,24	<b>0,66</b>	0,12	0,04

## 2) OCP – JES

Organizational culture value stability has moderate to strong positive correlation with multiple characteristics of physical dimension of work engagement. Similarly, being easy going shows moderate to strong positive correlation with the emotional dimension of engagement. Other organizational culture values with moderate positive correlation with multiple aspects of engagement include innovativeness and willingness to experiment for physical engagement, and respect for individual's rights for emotional engagement. Values with moderate to high negative correlation with work engagement include security of employment and not being constrained by many rules for physical engagement; high expectations for performance for emotional engagement; as well as attention to details and supportiveness for cognitive dimension of work engagement. Please see table 2 for more details.

Table 2

**Correlation between items of organizational culture dimensions measured by OCP and items of dimensions of work engagement measured by JES**

	Physical Engagement					Emotional Engagement					Cognitive Engagement							
1. Flexibility	-0,10	-0,27	-0,14	-0,12	0,23	-0,22	-0,17	-0,41	-0,23	0,05	-0,04	-0,10	-0,09	-0,16	-0,45	-0,43	-0,04	-0,05
2. Adaptability	-0,20	0,03	0,09	-0,03	0,20	-0,18	-0,36	-0,37	-0,16	-0,17	-0,09	-0,37	-0,01	0,07	-0,04	-0,20	0,04	-0,11
3. Stability	<b>0,61</b>	<b>0,58</b>	<b>0,66</b>	<b>0,53</b>	0,33	<b>0,71</b>	-0,21	-0,39	0,19	-0,37	-0,19	-0,03	0,46	0,47	0,27	0,02	0,20	0,07
4. Predictability	0,40	0,43	0,19	<b>0,59</b>	0,16	0,36	-0,32	-0,19	-0,08	-0,32	-0,12	-0,07	0,41	0,00	-0,10	-0,19	-0,10	-0,40
5. Being innovative	<b>0,58</b>	0,23	0,49	0,12	0,04	<b>0,51</b>	0,11	0,10	0,25	0,20	0,11	0,17	0,01	-0,06	0,23	-0,13	0,26	0,23
6. Being quick to take advantage of opportunities	-0,04	-0,02	0,13	-0,02	-0,19	-0,08	-0,38	-0,37	-0,20	-0,37	-0,24	-0,46	0,11	0,11	-0,05	-0,46	0,26	-0,12
7. A willingness to experiment	<b>0,51</b>	0,27	0,40	0,17	0,10	<b>0,53</b>	0,06	0,01	0,16	0,10	-0,01	0,07	0,10	-0,02	0,34	0,06	0,35	0,34
8. Risk taking	-0,17	0,00	-0,28	-0,44	-0,09	-0,30	0,00	0,09	-0,05	-0,02	0,03	0,03	-0,21	<b>-0,67</b>	-0,08	0,01	-0,05	-0,02
9. Being careful	-0,46	-0,07	<b>-0,52</b>	-0,05	0,05	-0,07	0,30	0,12	-0,18	-0,17	-0,06	0,13	0,31	0,10	-0,01	0,34	-0,10	-0,01
10. Autonomy	-0,29	-0,45	<b>-0,64</b>	-0,33	-0,27	-0,34	<b>-0,30</b>	-0,02	-0,38	0,05	-0,21	-0,40	-0,08	-0,36	-0,35	0,05	-0,33	-0,10
11. Being rule oriented	-0,14	0,15	0,05	-0,28	-0,23	-0,07	<b>-0,64</b>	-0,44	-0,46	-0,02	-0,26	-0,29	-0,11	-0,30	-0,02	-0,01	-0,13	-0,10
12. Being analytical	-0,30	0,01	-0,27	-0,33	0,20	-0,25	-0,27	-0,19	-0,39	0,16	-0,04	0,00	-0,23	-0,47	<b>-0,25</b>	0,14	<b>-0,33</b>	-0,12
13. Paying attention to detail	0,12	-0,19	-0,19	-0,15	0,00	-0,36	-0,27	-0,13	-0,29	0,31	-0,09	0,00	-0,41	-0,48	<b>-0,51</b>	0,05	<b>-0,65</b>	-0,36
14. Being precise	-0,22	-0,02	-0,38	0,05	0,10	-0,08	<b>-0,58</b>	-0,47	-0,44	0,01	-0,15	-0,22	0,11	-0,01	-0,19	0,25	-0,02	0,10
15. Being team oriented	0,08	0,17	0,09	0,16	0,13	-0,02	-0,09	0,11	0,11	-0,34	-0,11	0,06	-0,13	-0,42	-0,25	-0,39	-0,19	-0,33
16. Sharing information freely	-0,12	0,01	-0,25	0,05	0,08	-0,44	0,20	0,39	0,21	-0,10	0,11	0,19	-0,26	-0,49	-0,20	0,08	-0,43	-0,39
17. Emphasizing a single culture throughout the organization	-0,38	-0,07	0,04	0,06	0,25	-0,03	0,17	0,04	0,13	0,28	0,36	0,12	0,09	<b>0,57</b>	0,26	0,09	0,30	0,26
18. Being people oriented	0,24	0,21	0,23	0,39	-0,19	0,21	0,22	0,39	0,45	0,01	0,29	0,14	0,09	0,24	0,30	0,21	0,18	0,09
19. Fairness	0,27	0,45	-0,02	0,31	0,38	0,15	0,13	0,20	0,16	-0,06	0,10	0,27	0,22	0,01	0,26	0,44	0,07	-0,07
20. Respect for the individual's right	-0,10	0,09	0,10	<b>0,53</b>	0,21	0,04	<b>0,57</b>	<b>0,55</b>	0,44	0,35	0,40	0,49	0,16	0,43	0,35	0,40	-0,35	-0,19
21. Tolerance	<b>0,62</b>	0,32	0,12	0,25	-0,03	0,21	-0,31	-0,02	-0,06	0,23	-0,07	-0,12	0,21	0,00	0,33	0,46	-0,04	-0,11
22. Informality	0,02	-0,43	-0,38	0,06	-0,41	0,14	-0,17	0,24	<b>-0,13</b>	-0,19	-0,28	-0,48	-0,03	0,03	-0,14	-0,07	0,22	0,26
23. Being easy going	0,07	-0,36	-0,05	0,32	-0,18	-0,12	<b>0,61</b>	<b>0,57</b>	<b>0,61</b>	0,09	0,34	0,29	-0,17	0,20	-0,19	-0,06	-0,15	0,02
24. Being calm	0,01	-0,05	-0,12	0,33	-0,38	0,22	0,18	0,30	0,28	-0,02	0,11	-0,03	0,34	0,26	0,24	0,29	<b>-0,01</b>	0,13
25. Being supportive	0,14	0,21	0,06	0,26	0,22	-0,12	-0,07	0,00	0,08	-0,06	0,16	0,18	-0,04	-0,11	-0,39	-0,01	<b>-0,56</b>	<b>-0,52</b>
26. Being aggressive	<b>-0,51</b>	-0,07	-0,02	-0,34	-0,02	0,00	0,15	-0,10	-0,02	-0,15	0,14	-0,03	0,05	0,25	0,16	-0,21	<b>0,62</b>	0,44
27. Decisiveness	-0,01	0,05	-0,03	0,22	0,09	0,17	0,22	-0,15	0,34	-0,21	0,09	-0,04	0,42	0,28	0,19	0,28	0,12	0,30
28. Action orientation	0,03	0,32	0,18	-0,29	0,04	0,19	-0,32	-0,38	-0,17	<b>-0,54</b>	-0,41	-0,11	0,08	-0,24	-0,05	-0,22	0,05	-0,05
29. Taking initiative	0,18	0,36	0,30	-0,48	0,08	-0,18	-0,03	-0,09	0,03	0,25	0,13	0,14	-0,17	-0,39	0,29	0,13	-0,09	-0,17
30. Being reflective	0,12	0,24	0,34	-0,15	-0,12	0,31	-0,07	-0,34	-0,06	-0,09	-0,20	0,10	0,12	0,08	0,22	0,08	0,12	0,22
31. Achievement orientation	-0,01	0,13	-0,09	<b>-0,22</b>	-0,09	-0,15	-0,24	-0,26	-0,14	<b>-0,54</b>	-0,23	-0,18	-0,13	<b>-0,60</b>	-0,46	-0,26	-0,22	-0,23
32. Being demanding	-0,50	-0,28	-0,39	<b>-0,57</b>	-0,01	-0,33	0,12	-0,09	-0,27	-0,04	0,16	-0,01	-0,03	-0,20	-0,39	-0,42	0,11	-0,05
33. Taking individual responsibility	-0,14	0,04	-0,04	0,10	0,29	-0,12	0,20	-0,21	0,03	0,18	-0,02	0,28	0,18	0,15	0,20	0,38	-0,20	0,02
34. Having high expectations for performance	-0,27	-0,02	-0,18	-0,30	0,01	0,08	<b>-0,54</b>	<b>-0,82</b>	-0,48	-0,36	-0,43	-0,37	0,23	0,06	-0,09	-0,02	0,33	0,38
35. Opportunities for professional growth	0,21	0,02	-0,03	0,04	-0,27	0,01	-0,32	-0,33	<b>-0,21</b>	-0,28	-0,31	<b>-0,50</b>	0,23	0,23	0,18	0,15	0,34	0,11
36. High pay for good performance	-0,26	-0,42	-0,40	<b>-0,51</b>	-0,42	-0,02	-0,31	-0,20	<b>-0,50</b>	-0,19	-0,46	<b>-0,57</b>	-0,18	0,01	-0,07	0,13	0,40	<b>0,51</b>
37. Security of employment	-0,23	<b>-0,53</b>	<b>-0,51</b>	0,16	-0,35	-0,14	-0,07	0,17	-0,24	0,17	-0,01	-0,14	-0,11	0,18	-0,35	0,04	-0,04	0,10
38. Offers praise for good performance	0,05	0,20	-0,06	0,13	0,10	0,04	0,10	0,03	0,12	-0,02	0,03	-0,04	0,27	0,33	0,36	<b>0,70</b>	-0,07	0,07
39. Low level of conflict	-0,04	-0,06	-0,09	0,22	-0,10	-0,11	0,05	0,41	0,03	0,10	-0,09	-0,05	-0,10	0,11	0,21	0,34	-0,29	-0,22
40. Confronting conflict directly	-0,19	0,37	0,33	0,31	0,28	0,19	0,41	0,09	0,40	-0,35	<b>0,11</b>	0,41	0,12	0,29	0,31	0,03	0,27	0,17
41. Developing friends at work	0,22	0,03	0,19	0,33	0,27	-0,17	0,43	0,41	0,48	0,27	<b>0,65</b>	0,31	-0,04	0,11	-0,25	-0,23	-0,34	-0,47
42. Fitting in	-0,19	-0,32	-0,17	-0,11	-0,09	-0,10	0,46	0,29	0,31	-0,03	0,24	-0,03	0,01	0,35	0,03	0,07	0,23	0,28
43. Working in collaboration with others	0,23	-0,04	0,28	0,32	0,04	0,41	-0,21	-0,24	-0,08	-0,12	-0,33	-0,18	0,23	<b>0,50</b>	0,08	-0,21	0,12	0,08

Table 2 (continued)

44. Enthusiasm for the job	0,29	0,00	0,32	-0,19	-0,16	0,09	-0,05	-0,27	-0,07	-0,30	-0,35	-0,16	-0,03	-0,04	-0,06	-0,35	0,06	-0,06
45. Working long hours	-0,21	-0,44	0,03	-0,56	-0,36	-0,30	0,03	-0,04	-0,19	0,09	-0,14	-0,23	-0,57	-0,20	-0,20	-0,25	0,02	0,15
46. Not being constrained by many rules	-0,16	-0,73	-0,31	-0,40	-0,62	-0,40	0,16	0,24	-0,02	0,08	-0,06	-0,15	-0,56	-0,19	-0,44	-0,33	0,02	0,16
47. An emphasis on quality	0,45	0,40	0,27	0,24	0,52	0,22	0,00	-0,13	-0,09	0,32	0,10	0,46	0,18	-0,16	-0,01	-0,10	-0,21	-0,35
48. Being distinctive-different from others	-0,28	-0,31	-0,13	-0,19	-0,09	-0,44	0,44	0,13	0,33	0,12	0,24	0,32	-0,46	-0,15	-0,20	0,15	-0,11	0,26
49. Having a good reputation	0,33	0,24	0,54	0,26	0,08	0,30	-0,03	0,15	0,30	0,13	0,19	-0,06	0,17	0,37	0,30	-0,18	-0,02	-0,21
50. Being socially responsible	-0,18	-0,37	-0,28	-0,01	-0,30	-0,11	0,06	0,32	-0,10	0,37	-0,03	-0,03	-0,15	0,37	0,13	0,47	-0,13	0,13
51. Being results oriented	-0,15	0,25	0,25	0,04	0,26	0,15	0,19	0,11	0,17	0,00	0,20	0,12	0,25	0,00	0,32	-0,26	0,11	-0,11
52. Having a clear guiding philosophy	0,29	-0,29	0,04	-0,16	-0,37	-0,08	0,00	0,20	0,04	0,21	-0,14	0,12	-0,60	-0,22	-0,15	-0,07	0,15	0,26
53. Being competitive	-0,11	0,09	-0,04	0,05	0,25	0,19	0,27	0,46	0,10	0,37	0,43	0,24	0,27	0,19	0,29	-0,11	0,22	-0,05
54. Being highly organized	0,21	0,10	0,16	0,01	0,15	0,20	-0,05	0,29	-0,11	0,44	0,09	0,29	-0,10	-0,10	0,08	-0,26	0,01	-0,18

### 3) OCPR – UWES

Based on correlation analysis between dimensions of OCPR and UWES instruments (table 3), there is a moderate positive correlation between innovation and such dimensions of work engagement as dedication and absorption. Other organizational culture values showing positive correlation with different dimensions of work engagement include social responsibility and stability. There is a negative correlation between competitiveness and all three dimensions of work engagement.

Table 3

**Correlation between items of organizational culture dimensions measured by the revised edition of OCP and items of dimensions of work engagement measured by UWES**

	Vigor						Dedication					Absorption					
Competitiveness	-0,27	0,00	-0,15	-0,08	-0,35	-0,34	0,06	-0,19	0,09	-0,16	0,00	0,07	-0,10	-0,06	-0,22	0,11	-0,43
	-0,15	-0,09	-0,27	0,02	-0,05	-0,40	-0,25	-0,21	-0,23	-0,07	-0,08	0,07	-0,26	-0,25	0,05	-0,31	-0,49
	-0,19	0,32	0,06	-0,05	0,33	0,35	-0,31	0,16	-0,02	-0,08	-0,09	0,39	0,36	0,10	0,01	0,28	0,20
	-0,59	0,12	-0,20	-0,26	-0,40	-0,04	-0,24	-0,15	-0,04	-0,51	-0,14	0,05	-0,24	-0,19	-0,57	-0,04	-0,24
Social Responsibility	0,12	-0,23	-0,10	0,09	0,14	-0,17	-0,28	0,00	-0,16	0,25	-0,24	0,19	0,25	0,35	0,26	0,10	-0,03
	0,36	0,36	0,38	0,39	0,26	-0,05	-0,03	<b>0,51</b>	-0,05	0,45	0,34	0,35	0,11	0,47	0,32	0,17	0,41
	-0,35	-0,05	0,08	-0,27	-0,23	0,14	-0,34	0,15	-0,30	0,17	-0,22	0,00	-0,28	-0,14	0,18	0,05	-0,28
	0,08	0,06	-0,31	<b>0,59</b>	0,21	-0,29	-0,38	0,00	-0,42	0,27	0,30	<b>0,57</b>	0,28	0,25	0,34	0,34	-0,12
Supportiveness	0,15	0,41	0,30	0,00	0,41	0,40	-0,17	<b>0,53</b>	0,13	0,29	-0,16	<b>0,55</b>	0,37	0,33	0,45	0,15	0,24
	-0,23	-0,24	-0,02	-0,25	-0,52	-0,19	-0,07	-0,21	-0,02	-0,09	-0,10	-0,40	-0,49	-0,13	-0,03	-0,12	-0,45
	-0,05	0,10	0,25	-0,32	0,00	-0,05	0,02	0,00	0,27	0,25	-0,22	0,00	-0,01	0,20	0,26	-0,02	-0,04
	-0,22	-0,28	-0,42	0,11	-0,23	-0,55	-0,34	-0,30	-0,30	-0,20	0,05	0,16	-0,12	0,00	-0,08	-0,08	-0,58
Innovation	-0,01	0,07	0,30	-0,44	-0,20	-0,06	0,34	0,00	<b>0,51</b>	-0,17	-0,39	-0,43	-0,40	-0,14	-0,30	-0,40	-0,13
	-0,21	0,19	0,28	-0,32	-0,19	0,38	0,00	0,25	0,36	-0,21	-0,23	0,00	0,00	0,23	-0,21	0,00	0,17
	-0,03	0,27	0,28	-0,47	-0,15	0,12	<b>0,51</b>	0,00	0,44	-0,19	-0,21	-0,40	-0,36	-0,39	-0,36	-0,16	0,03
	0,18	0,30	0,47	0,32	0,32	0,38	0,11	0,42	0,06	<b>0,60</b>	<b>0,54</b>	0,29	0,38	0,39	<b>0,62</b>	<b>0,50</b>	0,34
Emphasis on Rewards	-0,03	-0,23	-0,10	-0,02	-0,29	-0,60	-0,11	-0,19	-0,03	-0,06	-0,24	-0,19	-0,33	0,00	-0,22	-0,38	-0,28
	0,21	-0,04	0,10	-0,35	-0,07	-0,15	0,29	0,00	0,24	0,04	-0,44	-0,19	-0,11	-0,08	-0,03	-0,03	-0,13
	-0,20	0,06	-0,34	-0,22	-0,23	-0,34	-0,02	-0,30	-0,03	-0,40	-0,26	0,00	-0,20	-0,37	-0,41	-0,07	-0,30
	-0,41	0,10	0,00	-0,16	-0,10	0,00	-0,24	0,00	0,09	-0,10	-0,34	0,13	-0,06	0,00	-0,21	0,00	-0,34
Performance Orientation	0,43	0,41	0,19	0,33	0,43	0,14	0,18	0,41	0,27	0,24	0,08	<b>0,50</b>	0,36	0,32	0,36	0,36	-0,02
	-0,19	0,31	0,38	-0,26	-0,05	0,29	0,09	0,18	0,40	0,12	-0,03	0,06	-0,02	0,11	0,23	0,07	-0,11
	-0,14	0,24	0,04	-0,41	-0,03	0,35	-0,12	0,24	0,07	-0,35	-0,39	0,16	0,02	-0,15	-0,20	0,11	-0,01
	0,17	0,47	-0,03	0,13	0,20	-0,27	0,05	0,15	-0,04	0,00	0,00	0,37	0,00	-0,05	-0,17	0,09	0,17
Stability	-0,02	0,20	0,03	0,09	0,04	0,06	-0,11	0,16	-0,05	0,05	0,06	0,28	0,20	0,20	-0,04	0,10	0,38
	0,24	0,27	0,02	<b>0,51</b>	0,13	-0,49	0,30	-0,13	0,27	0,13	0,49	0,22	0,28	0,39	-0,16	0,17	0,34
	-0,22	0,41	0,00	0,11	-0,12	0,14	-0,06	0,15	0,02	-0,20	0,19	0,31	0,03	0,00	-0,20	0,43	-0,08
	0,21	0,24	-0,04	<b>0,60</b>	0,29	-0,27	0,16	-0,11	0,08	0,11	<b>0,64</b>	0,32	0,48	0,35	-0,05	0,34	0,45

## 4) OCPR – JES

Results of the study show moderate positive correlation between emphasis on rewards and the cognitive dimension of work engagement. Social responsibility and supportiveness also have positive correlation with different dimensions of work engagement. Competitiveness, however, has a moderate negative correlation with all three dimensions of work engagement – physical, emotional, and cognitive. Another organizational culture value with negative correlation with work engagement is stability. Please see table 4 for more details.



Table 4

**Correlation between items of organizational culture dimensions measured by the revised edition of OCP and items of dimensions of work engagement measured by JES**

	Physical Engagement						Emotional Engagement						Cognitive Engagement					
Competitiveness	-0,26	-0,08	0,21	-0,19	0,08	-0,07	-0,35	-0,07	0,16	-0,07	-0,11	-0,12	0,10	0,19	0,35	-0,35	0,10	0,08
	-0,06	0,02	0,02	0,04	0,03	-0,16	-0,28	0,14	0,28	-0,38	-0,25	-0,21	0,11	-0,04	-0,08	-0,11	0,11	0,08
	0,04	0,46	-0,19	-0,11	0,48	-0,16	-0,01	-0,22	-0,35	0,18	0,02	0,11	-0,16	0,11	-0,23	-0,06	0,08	-0,13
	-0,62	-0,26	-0,59	-0,60	-0,12	-0,05	-0,44	-0,53	-0,26	-0,22	-0,34	-0,39	-0,63	-0,30	-0,28	-0,70	-0,40	-0,50
Social Responsibility	-0,05	0,33	0,43	0,22	0,18	-0,08	-0,12	0,00	-0,14	0,12	-0,12	0,11	0,29	<b>0,60</b>	0,27	0,24	0,29	0,46
	0,14	0,17	-0,06	-0,35	-0,48	0,04	<b>0,51</b>	0,18	-0,04	0,04	0,06	0,35	0,00	0,10	-0,12	-0,03	0,26	0,21
	0,04	0,11	0,15	-0,39	0,04	0,06	-0,06	-0,16	-0,27	-0,10	0,10	-0,08	0,00	-0,04	0,05	-0,05	-0,23	-0,18
	-0,06	0,19	0,25	-0,16	-0,13	-0,46	-0,21	-0,14	-0,07	-0,24	-0,36	-0,14	0,21	0,46	-0,08	-0,11	<b>0,53</b>	0,42
Supportiveness	0,24	<b>0,68</b>	0,00	0,00	0,42	0,38	0,19	0,18	0,00	0,38	0,00	0,33	0,27	<b>0,52</b>	0,32	0,32	0,27	0,22
	-0,14	-0,31	0,29	-0,26	-0,21	0,19	-0,19	-0,15	-0,31	-0,26	0,12	-0,36	0,05	-0,05	0,00	-0,29	-0,27	0,04
	0,06	0,31	0,22	0,22	0,44	0,33	-0,21	0,23	-0,11	0,33	-0,04	0,08	0,34	0,42	0,48	0,22	0,00	0,27
	-0,36	-0,08	0,15	-0,17	-0,14	-0,26	-0,39	0,00	0,11	-0,42	-0,39	-0,23	0,00	0,17	-0,22	-0,33	0,23	0,18
Innovation	-0,06	-0,22	-0,10	0,15	-0,01	0,47	0,02	0,08	0,21	0,11	0,35	-0,05	-0,12	-0,32	0,12	-0,12	-0,47	-0,23
	-0,34	0,00	-0,41	-0,37	0,00	<b>0,54</b>	0,00	-0,26	-0,32	0,27	0,00	0,00	-0,39	0,00	0,00	-0,23	-0,39	-0,31
	0,16	-0,25	-0,13	0,11	0,09	0,29	0,08	0,04	0,20	0,17	0,45	-0,04	-0,06	-0,45	0,21	-0,11	-0,42	-0,33
	0,49	0,32	0,18	-0,08	0,10	0,03	0,42	0,29	-0,04	0,33	0,28	0,42	0,22	0,08	-0,10	0,36	0,22	0,00
Emphasis on Rewards	-0,30	-0,14	0,12	-0,05	-0,26	-0,08	-0,12	0,00	0,09	-0,28	-0,12	-0,07	0,00	0,05	0,27	-0,27	0,00	0,23
	0,22	0,16	<b>0,65</b>	0,37	0,30	0,25	0,04	0,19	0,16	0,25	0,38	0,14	<b>0,55</b>	0,42	<b>0,78</b>	0,20	0,14	0,44
	-0,19	-0,03	0,13	-0,06	0,19	-0,19	-0,35	-0,21	-0,03	-0,19	-0,13	-0,27	0,16	0,21	0,48	-0,38	0,16	0,25
	-0,34	0,00	-0,21	-0,18	0,15	0,00	-0,40	-0,39	0,00	0,00	0,00	-0,24	-0,39	-0,18	-0,23	-0,34	-0,39	-0,46
Performance Orientation	0,33	0,33	0,43	0,16	0,13	0,24	0,21	0,14	0,33	0,24	0,36	0,14	0,43	0,44	0,08	0,11	0,43	0,34
	0,10	0,20	-0,04	-0,07	0,37	0,48	-0,09	0,13	-0,03	0,29	0,14	0,02	0,09	0,07	0,13	0,03	-0,19	-0,15
	0,03	0,34	0,05	-0,25	0,35	0,26	0,12	-0,16	-0,26	0,14	0,21	0,08	0,06	0,25	0,26	-0,15	0,06	0,05
	0,00	0,13	-0,08	-0,15	-0,12	-0,22	0,05	-0,05	0,13	-0,05	-0,08	0,05	0,08	0,15	0,28	-0,28	0,32	0,25
Stability	-0,17	0,19	-0,28	-0,26	-0,03	-0,05	0,05	-0,11	-0,22	0,13	-0,33	0,16	-0,08	0,26	0,35	-0,06	0,16	0,13
	-0,24	-0,14	-0,18	0,05	-0,26	-0,34	-0,07	0,04	0,18	0,07	-0,31	0,10	-0,07	0,14	0,14	-0,26	0,33	0,26
	-0,16	-0,08	-0,10	-0,61	-0,14	-0,10	-0,06	-0,47	-0,27	-0,10	0,10	-0,23	-0,23	-0,04	-0,22	-0,60	0,00	-0,18
	-0,06	0,02	-0,16	0,04	-0,10	-0,54	0,06	0,04	0,02	0,06	-0,27	0,20	-0,06	0,12	-0,08	-0,12	0,47	0,23

## CONCLUSIONS AND DISCUSSION

Analysis of organizational culture profile measured by two different versions of the OCP instrument shows similar results in both subcultures studied within the organization. Organizational culture profile in the organization is characterized by focus on stability and performance, as well as external competition. Organizational culture profile in both subcultures is less characterized by innovation and risk taking. Such set of organizational culture values presumably meets the goals of the organization, as it operates in financial industry, where stability and safety is highly valued by both – stakeholders and customers. Revised version of the OCP instrument can be recommended for the assessment of organizational culture profile in the future studies, since it shows similar results to the original version of the instrument. Revised version of the instrument is much more convenient for respondents to fill in due to use of Likert scale type of questions instead of Q-sort method of data collection. Likert scale type of questions are also supported by most online based survey data collection tools, which makes collection and analysis of data more efficient.

Level of different dimensions of work engagement, as well as the overall level of work engagement is relatively high in both teams that participated in the study. Work engagement in Team A is slightly higher, compared to Team B. Both instruments used for work

engagement assessment confirm such result. In regards to future studies of work engagement, it can be recommended to use both assessment tools – UWES and JES, as each of them is based on one of the two commonly used definitions of work engagement. The theory of work engagement is relatively new in management science, therefore there is no consensus, which of the two slightly different definitions is more correct.

Results of the research allow to conclude that there is an interaction between certain organizational culture values and level of different dimensions of work engagement. For example, values oriented towards respect for individual's rights and social responsibility show positive correlation with work engagement. Such organizational culture values as competitiveness as well as high expectations for performance have negative correlation with work engagement.

Even though purpose of this study has been achieved, and interaction between certain organizational culture values and levels of different dimensions of work engagement has been discovered, this study is only an early attempt to find organizational culture values that foster work engagement. Further research with bigger sample size is required in order to verify research results, as well as to identify what impact each specific aspect of organizational culture has on different dimensions of work engagement.

In addition, further studies should also investigate the direction of interaction between organizational culture and work engagement – do specific organizational culture values foster work engagement or vice versa.

#### REFERENCES

1. Albrecht, S.L. (2010), "Employee engagement: 10 key questions for research and practice", in Albrecht, S.L. (Ed.), *Handbook of Employee Engagement: Perspectives, Issues, Research and Practice*, Cheltenham: Edward Elgar Publishing Limited, 3-19.
2. Alvesson, M. (2012), *Understanding Organizational Culture*. 2nd edition, London: Sage Publications Ltd.
3. Baker, E.L. (1980), "Managing organizational culture", *Management Review*, June, 8-13.
4. Baron, A. (2006), "Aligning Internal Employee Communication with Business Strategy", in Gillis, T.L. (Ed.), *The IABC Handbook of Organizational Communication: A Guide to Internal Communication, Public Relations, Marketing, and Leadership*, San Francisco, CA: Jossey-Bass, 93-107.
5. Bindl, U.K., Parker, S.K. (2010), "Feeling good and performing well? Psychological engagement and positive behaviors at work", in Albrecht, S.L. (Ed.), *Handbook of Employee Engagement: Perspectives, Issues, Research and Practice*, Cheltenham: Edward Elgar Publishing Limited, 385-398.
6. Byrne, Z.S. (2015), *Understanding Employee Engagement: Theory, Research, and Practice*, New York: Routledge.
7. Dubkevics, L. (2009), *Organizācijas kultura / Organizational culture*, Riga: Jumava.
8. Dubkevics, L., Barbars, A. (2011), *Role of organizational Culture and Leadership in Company's Efficiency*, Berlin: LAP LAMBERT Academic Publishing.
9. Ehrhart, M.G., Schneider, B., Macey, W.H. (2014), *Organizational Climate and Culture: An Introduction to Theory, Research, and Practice*, New York: Routledge.
10. Evans, J.D. (1996), *Straightforward statistics for the behavioural sciences*, Pacific Grove, CA: Brooks/Cole Publishing.
11. Heskett, J.L. (2012), *The Culture Cycle. How to Shape the Unseen Force That Transforms Performance*, New Jersey: FT Press.
12. Hofstede, G. (1994), *Uncommon sense about organizations: Case studies and field observations*, Thousand Oaks, CA: Sage.
13. Kahn, W.A. (1990), "Psychological conditions of personal engagement and disengagement at work", *Academy of Management Journal*, 33, 692-724.
14. Kahn, W.A. (2010), "The essence of engagement: lessons from the field" in Albrecht, S.L. (Ed.), *Handbook of Employee Engagement: Perspectives, Issues, Research and Practice*, Cheltenham: Edward Elgar Publishing Limited, 20-30.
15. Kahn, W.A. (1992), "To be fully there: psychological presence at work", *Human Relations*. 45(4), 321–349.
16. Macey, W.H., Schneider, B., Barbera, K.M., Young, S.A. (2009), *Employee Engagement: Tools for Analysis, Practice, and Competitive Advantage*, West Sussex: John Wiley-Blackwell.

17. Mikelsona, I., Mackevica, L., Olehnovica, E. (2008), *Karjeras attistibas atbalsts / Support for career development*, Riga: Valsts izglitibas attistibas agentura.
18. O'Reilly, C.A., Chatman, J., & Caldwell, D.F. (1991), "People and organizational culture: A profile comparison approach to assessing person-organization fit", *Academy of Management Journal*, 34, 487-516.
19. Parsons, T. (1951), *The social system*, New York: Free Press.
20. Pfeffer, J. (1994), *Competitive Advantage Through People*, Boston: Harvard Business Press.
21. Rice, C., Marlow, F., Masarech, M.A. (2012), *The Engagement Equation: Leadership Strategies for an Inspired Workforce*, New Jersey: John Wiley & Sons.
22. Rich, B.L., LePine, J.A., & Crawford, E.R. (2010), "Job engagement: Antecedents and effects on job performance", *Academy of Management Journal*, 53, 617-635.
23. Rokeach, M. (1973), *The nature of human values*, New York: Free Press.
24. Sarros, J.C., Gray, J., Densten, I.L, Cooper, B. (2005), "The Organizational Culture Profile Revisited and Revised: An Australian Perspective", *Australian Journal of Management*, 30 (1), 159-182.
25. Sathe, V. (1983), "Implications of corporate culture: A manager's guide to action", *Organizational Dynamics*, 12(4), 4-23.
26. Schaufeli, W.B. (2014), "What is engagement?" In Truss, C., Alfes, K., Delbridge, R., Shantz, A., & Soane, E. (Eds.), *Employee Engagement in Theory and Practice*, London: Routledge.
27. Schaufeli, W.B., Bakker, A.B. (2004), "Job demands, job resources, and their relationship with burnout and engagement: a multi-sample study", *Journal of Organizational Behavior*, 25(3), 293-315.
28. Schaufeli, W.B., Salanova, M., Gonzaaalez-Romaa, V. & Bakker, A.B. (2002), "The measurement of engagement and burnout: a two sample confirmatory factor analytic approach", *Journal of Happiness Studies*, 3, 71-92.
29. Scherbaum, C.A., Putka, D.J., Naidoo, L.J., and Youssefnia, D. (2010), "Key driver analyses: current trends, problems, and alternative approaches" in Albrecht, S.L. (Ed.), *Handbook of Employee Engagement: Perspectives, Issues, Research and Practice*, Cheltenham: Edward Elgar Publishing Limited, 182-196.
30. Schein, E.H. (2010), *Organizational Culture and Leadership*. 4th Edition, San Francisco: John Wiley & Sons.
31. Smith, K.K. & Berg, D.N. (1987), *Paradoxes of Group Life: Understanding Conflict, Paralysis, and Movement in Group Dynamics*, San Francisco, CA: Jossey-Bass.
32. Wallach, E.J. (1983), "Individuals and Organizations: The Cultural Match", *Training and development journal*, February, 29-36.
33. Schaufeli, W.B., Bakker, A.B. (2003), *Utrecht Work Engagement Scale: Preliminary manual (Version 1)*, Unpublished document, Utrecht, the Netherlands: Utrecht University.

# LINKING PERSONAL AND ORGANISATIONAL VALUES AND BEHAVIOUR TO CORPORATE SUSTAINABILITY: A CONCEPTUAL MODEL

**Silvija Avota**

*BA School of Business and Finance, Riga, Latvia*

*e-mail: [Silvija.avota@ba.lv](mailto:Silvija.avota@ba.lv)*

**Elsbeth McFadzean**

*University of Liverpool, Great Britain*

*e-mail: [elsbeth.mcfadzean@online.liverpool.ac.uk](mailto:elsbeth.mcfadzean@online.liverpool.ac.uk)*

**Liga Peiseniece**

*BA School of Business and Finance, Latvia*

*e-mail: [liga.peiseniece@ba.lv](mailto:liga.peiseniece@ba.lv)*

## **Abstract**

**Purpose** – The aim of this paper is to explore the organisational values that influence corporate sustainability, develop conceptual model that expose the influence of personal and organisational values on corporate sustainability and to construct guidelines in order to develop employee values that are compatible with corporate sustainability goals in accordance to existing literature.

**Design /methodology/approach** – The research was conducted by using the analysis of academic literature. Based on theoretical findings the authors offer new conceptual model and guidelines for managers.

**Findings** – The main finding of the research is exploring how personal and organisational values influence corporate sustainability.

**Research implications** – The presented conceptual model gives a valid and valuable insight into the topic of values and sustainability in a context other than well-established market economies. The conceptual model could also be used as a basis for future research of the topic either to validity of it for different industries and cultures or deepen it to include the effects of personality of value formation.

**Practical Implications** – The offered guidelines can be used by executives, by managers for the development of sustainable companies.

**Originality/Value** –The value of this article lies in the work done on analysing the already existing literature and the developed model shows the complexity of the subject and at the same time gives a structured vision of the topic.

Keywords: personal values, corporate values, corporate sustainability

Paper type – Conceptual paper

## **1. INTRODUCTION**

Corporate sustainability is becoming a strategic imperative for many of today's businesses (Ball, 2010; Corbett, 2009; Preston, 2001). For example, green product development – product designs and innovations that address environmental issues – social responsibility and environmental performance are all receiving significant attention from governments, consumers, business organizations and academics around the world (Chen, 2001; Chinander, 2001; Chow and Chen, 2012; Dawkins and Lewis, 2003; Dowell, Hart and Yeung, 2000).

Although corporate sustainability is becoming more widespread, it is still proving to be a challenge both in terms of technology and public relations (Economist Intelligence Unit, 2008; Info-Tech Research Group, 2009; Wati and Koo, 2010). For example, scandals such as the Union Carbide gas leak in Bhopal, the Seveso accident in Italy, the Exxon Valdez

collision, the Piper Alpha explosion, the Baia Mare cyanide spill and, of course the more recent BP oil spill in the Gulf of Mexico are only a few examples of poorly managed environmental disasters over the past 40 years (Bertazzi, 1991, Guldenmund, 2010; Kunreuther and Bowman, 1997; Kurtz, 2008).

Despite the public embrace of sustainability, though, many organizations are still failing to implement sustainability practices. They struggle to build sustainability measures into their new product development procedures, manufacturing processes or supply chains and they fail to align practice with sustainability objectives or strategies. Moreover, research has shown that personal and organisational values can have an influence on corporate sustainability (Davis, Schoorman and Donaldson, 1997; Nordberg, 2008; Uhlaner, Floren and Geerlings, 2007; van Marrewijk and Were, 2003). The aim of this paper, therefore, is to develop a conceptual model that identifies personal and corporate values and illustrates how these values influence organisational sustainability. To this end, this article consists of three parts. The first part provides the theoretical view on the link between values and corporate sustainability. The second part presents and discusses the conceptual model and third part offers guidelines in order to develop employee values that are compatible with corporate sustainability. Finally, some conclusions and recommendations are presented.

## **2. THEORETICAL VIEWS ON LINK BETWEEN VALUES AND CORPORATE SUSTAINABILITY**

### **2.1. SUSTAINABILITY IN ORGANISATIONS**

Our collective future is a major challenge to the whole world community (WCED, 1987). United Nations created World Commission on Environment and Development (WCED) in 1983 to develop and suggest governments on long-term strategies to overcome global environmental crisis. Over a period of three years the Commission developed a report (WCDE, 1987) where main dimensions of sustainable development were defined.

Although there is still no one commonly accepted definition of Sustainability (Elkington, 2012; White, 2013) lack of one specific definition does not minimise the importance of sustainable practices to meet the needs of the present generation as well as preserve the world for generations to come. Most often the term in management research is used as a business approach that creates long term shareholder value and at the same time takes into consideration economic, environmental and social dimensions including corporate governance, human capital management, protection of environment and corporate social responsibility (Epstein, 2008; Lo and Sheu, 2007; White, 2013).

The economic dimension of a sustainable organisation according to van Marrewijk and Werre (2003) includes fair price, balanced shareholder value with other stakeholders, expanded “ownership” possibilities, exchange of social and environmental information, and participatory relation with investors. Further, Sheth, Sethia and Srinivas (2011) emphasise financial performance, such as, reduction of costs and economic interests of external shareholders as important aspects of the economic dimension of sustainability that imply the need for improvement in economics and increasing wellbeing of all humans. Hansmann, Mieg and Frischknecht (2012) analyse sustainability from an objectives point of view and point out such objectives of sustainability to (1) ensure employment and generate income, (2) enhance human capital, (3) promote innovation, (4) consider externalities and, (5) improve economic situation for future generations in accordance to and reinforcing all the previously discussed economic dimension of sustainability.

A challenge for industrialised countries is to manage natural resources properly,

balancing between profit needs and environmental needs (Barber, 2011). The main objectives of the environmental dimension of sustainability are protection of the natural environment and biodiversity, responsible use of the renewable resources and limiting the use of non-renewable resources (Hansmann, Mieg and Frischknecht, 2012). van Marrewijk and Werre's (2003) Planet (or environmental) dimension includes cost-efficient environmental management and supporting neighbourhood development. It is emphasised that environmental management varies from exploiting natural resources to attain short term goals with little regard for the long term availability of their resources by pre-corporate sustainability companies to a willingness to reach a zero impact on the environment by holistic organisations. Green companies realise eco-efficient strategies and support neighbourhood development. This highest level of attitude to neighbourhood reflects a win-win approach (van Marrewijk and Werre, 2003).

Sustainability specific objectives of social dimension are protection of human health, personal development and education, sustaining societal values, equality and solidarity (Hansmann, Mieg and Frischknecht, 2012). van Marrewijk and Werre's (2003) People dimension aspects are participative and collegial people management, workplace environment designed to increase personnel well-being, safety and health systems which include socio-psychological dimensions, support for people diversities, high work ethics, discovery of the human behind the customer, and co-operation with suppliers. Authors point out that corporate culture of green organisations is often considered a major theme.

Several authors have elaborated on the topic of responsibilities for sustainability. van Marrewijk and Werre (2003) propose 4P-matrix of Corporate Sustainability (CS). Besides Profit, Planet, and People dimensions that are common in typical definitions of sustainability, the authors add the Principle dimension that describes the level of ambition of a company, internal drivers and motivators, criteria for decision making, external drivers, preferred role for the government, and organisation-stakeholders-society relationships. There are six levels of CS described including Pre-CS, Compliance-driven, Profit-driven, Caring, Synergistic, and Holistic. Already the Synergistic level is characterised by search for well-balanced solutions and a win-win approach (van Marrewijk and Werre, 2003). For the purpose of this research the three key dimensions of Sustainability – Economic, Environmental, and Social are evaluated. It is argued that in order to improve the level of sustainability is this way; companies must also encourage change in their organisational values and their employees' personal values.

## **2.2. VALUES**

Organisational values are the basis of organisational culture and are highly important for success (Groddeck, 2011; Ofori and Sokro, 2010). Values can be defined as beliefs on how work ought to be done and how do deal with different situations (Buchanan and Huczynski, 2010). Groddeck (2011) suggests that values can improve organisational control and steer managerial decision making towards more ethical choices through building unconscious reasoning patterns.

Barber (2011) seeks to define a model to leverage organisational values for sustainability initiatives within organisations of industrialised countries. He proposes seven levels derived from Graves (1965) model where the lower levels describe relying on traditional, proven mechanisms moving on to obeying authority and highest levels of collaboration and integrated approach. The author shows behavioural limitations and positive points of all levels. Considering the higher levels, Barber (2011) argues that at the level five people will often fail to distinguish busy work from productivity. Limitations of level six

organisations are related to collective orientation that might limit flexibility and actions and depriving attention from financial requirements in the process of seeking for consensus. On the other side, positive aspects of this value system are the large amount of opinions and ideas collected benefitting all and include skills to deliver messages in acceptable ways for all involved parties. Although organisations are never a purely at one level they can actively seek to move from the more knowledge based value systems (level four and five) towards wisdom based use of the knowledge (level six and seven) (Barber, 2011).

Kelly et al. (2005) survey reveals that ethics-related corporate values encourage staff to behave according to corporate expectations and respond properly to complex legal and regulatory environment. It is also stated here that company reputation, relationship among employees, and retention rate are strongly affected by values. Sullivan, Sullivan and Buffton (2002) emphasise that organisational values can help to create win-win outcomes, improve employee engagement, lead through changes, and achieve company goals. Customer focus, quality, creativity and innovation, integrity, respect, fairness, accountability, premium return on assets, use of technology, and global citizenship are the most often expressed corporate values (Kelly et al., 2005; Sullivan, Sullivan and Buffton, 2002).

Cameron and Quinn (2011) also advocate that sustainability of a company depends more on company values, personal beliefs, and vision rather than on market forces, competitive positioning, or resource advantages. Empirical evidence confirms this statement (Cameron and Ettington, 1988; Denison, 1990; Trice and Beyer, 1993 cited in Cameron and Quinn, 2011). To help interested parties to facilitate culture change process the authors present the Competing Values Framework and methodology for the process which depicts four major culture types – Hierarchy or control, Market or competitive, Clan or collaborative, Adhocracy or create culture.

Hierarchy or control culture from the Competing Values Framework is based on attributes such as rules, hierarchy, meritocracy, specialization, separate ownership, impersonality, and accountability (Cameron and Quinn, 2011). It is effective when a predictable output is necessary. Considering the Hierarchy culture from the point of view of van Marrewijk and Werre (2003) 4P-matrix, aspects like impersonality and separate ownership do not comply with aspects of a sustainable company since the social dimension of a sustainable company requires participative people management, socio-psychological well-being of employees, and a win-win approach toward all stakeholders.

The focus of organisations with a Market or competitive culture is on competitive advantage, productivity, and profitability. Leaders are highly production goal oriented and see the external environment as hostile (Cameron and Quinn, 2011). Aspects of organisations with Market culture are similar to the Profit-driven CS organisations defined in van Marrewijk and Werre (2003) 4P-matrix.

The Clan or collaborate type of culture is characterised by participation, shared values, teamwork, employee development, friendly workplace, corporate commitment to employees, and one where leaders are mentors (Cameron and Quinn, 2011). These characteristics can be linked to the People dimension in the Synergistic organisations. However, aspects of Planet dimension are not considered in this type of culture.

The Adhocracy or create culture one that is most able to highly volatile market conditions with ever-accelerating tendencies (Cameron and Quinn, 2011). Individuality and risk taking are common indicators of this type of culture. There is no organisational chart or strong rules, employees use temporary physical space and are willing to experiment and innovate which is the glue that keeps an organisation together. Organisational long-term values are based on growth and new products or services (Cameron and Quinn, 2011). Characteristics of this type of organisation are the most similar to Profit-driven organisation.

The afore mentioned research establishes the importance of organisational values on sustainability, however it must also be acknowledged that there is a persistent interaction between corporate culture and values, and personal values. Research shows that corporate culture and corporate values that are congruent with personal values help employees feel more personal attachment towards the company and thus drive their motivation (Posner, 2008). Personal values can be defined as long-term beliefs about the way one should be and act and other abstract ideals acting as guidelines in any arising situation (Connor and Becker, 1975). Personal values in the values perspective are the ones that play the most important role on behaviour of individuals. People may or may not define their values consciously therefore it is necessary to keep in mind that it does not mean that these values do not exist. Values are motivators and are relatively stable during life (Bardi and Schwartz, 2003). Schwartz (1992) defines the structure of basic individual values that includes ten values that are recognised in all societies. Although later Schwartz et al. (2012) revised the structure and added nine more values to the model they all were derived from the initial model to reduce fuzzy boundaries between elements. The initial ten values are self-direction, stimulation, hedonism, achievement, power, security, conformity, tradition, benevolence, and universalism. The personal values of employees might be either aligned with values of a company or conflicting with them.

Undoubtedly there is interaction between personal and organizational values. Liedtka (1989) focuses on the role of individual and organisational value congruence in the decision making process. A conceptual model is proposed to differentiate among different types of value conflicts. Levels of internal value congruence within individual and organisation and also between values of an individual and organisation define four quadrants of the model. In case of values conflict, individuals might choose to leave an organisation (Liedtka, 1989). Conflict within the individual's values system leads to role conflict and is the most frequently identified value conflict type in research. Liedtka (1989) concludes that organizational values provide the context in which managers then solve any ethical dilemmas they may be facing. Thus, having considered organisational and personal values, it is important to further evaluate how these translate into behaviour and actions to create a sustainable enterprise.

### **2.3. ORGANISATIONAL BEHAVIOUR AND PROCESSES**

Organisational behaviour is concerned with formal organisations, environment, and behaviour and interactions of employees and how they evolve together (Buchanan and Huczynski, 2010). Organisational behaviour is affected by external factors such as Political, Economical, Social, Technological, Legal, and Ecological issues from one side and internal factors including individual, group, structural, and management processes from the other side that all together should lead to organisational effectiveness and quality of working life. Given the nature of this research, the internal factors are reviewed in more detail.

Organisations themselves do not “behave”, only people can behave (Buchanan and Huczynski, 2010). However, values and needs of individuals might be different than organisational values and goals. An organisational dilemma is how to reconcile inconsistency between the two of them (Buchanan and Huczynski, 2010).

Bardi and Schwartz (2003) examination of value-behaviour relations reveal the impact of external circumstances on how internal values are expressed in related behaviours. The authors conclude that in the absence of external regulators, personal values have particularly strong influence on behaviour (Bardi and Schwartz, 2003). Organisational structure and processes are the “external pressure” for employees thus both structure and processes can influence behaviour of employees even if the required behaviour is not completely in



congruence with personal values.

There are always formal and informal groups in any organisation and groups that influence attitudes and behaviours of their members as well as organisational culture (Buchanan and Huczynski, 2010). Groups serve as a source of identification for group members. Belonging to a group affects motivation and behaviours of the individuals (Morier, Bryan and Kasdin, 2013; Brewer, 2007). In-group and out-group bias impact decision-making process and intergroup conflicts through in-group favouritism or perceived out-group hostility (Brewer, 2007). Understanding these is an important element to bring about the most nurturing social environment.

However, organisations are growing and changing and it is necessary that teams work together towards common goals. Teamwork contributes to organisational effectiveness, increases flexibility and employee participation, and speeds up innovation (Buchanan and Huczynski, 2010). There are also implications on decision-making processes in teams. Group polarisation phenomena refers to cases when the position that is held by the majority of group members is intensified and leads to decisions with high risk or caution (Buchanan and Huczynski, 2010). Janis (1973) invented the term “groupthink” to refer to the mode of thinking that group members engage in when they are dominated by the concurrence-seeking tendency.

Buchanan and Huczynski (2010) discuss how both organisational structure and personalities affects people’s attitudes and behaviour. Organisational structure is a pattern of interactions; it defines flow of information and integrates organisational behaviour across the organisation (Duncan, 1979). Appropriate structure is critical to manage sustainability issues and gain benefits from sustainability performance (Epstein and Roy, 2001). Buchanan and Huczynski (2010) define elements of organisational structure such as work specialisation, hierarchy (levels of management), span of control (number of subordinates), chain of command (to whom to report), departmentalisation (functional, geographical, product, etc.), formalisation (rules and procedures), and centralisation (decisions made by top managers or delegated down).

One more dimension that affects organisational behaviour is management processes. Buchanan and Huczynski (2010) emphasise organisational change, leadership, decision-making, conflict resolution, power and politics as the most critical topics that should be included into the scope of management processes. Epstein (2008), on the other hand, suggests leadership, sustainability structure, and sustainability systems, programs and actions should be included in sustainability processes. It is proposed to use top-down strategies to get all of the management levels committed to sustainability and lead a cultural transformation.

Bardi and Schwartz (2003) examine value-behaviour relations to reveal the correlation between values and corresponding behaviours. The highest level of correlation is shown for (1) tradition (acceptance of customs, respect for traditions), (2) stimulation (excitement and challenge in life), (3) hedonism (pleasure and enjoying life), (4) self-direction (choosing own goals, curiosity, and independent thought), (5) universalism (understanding of all people and nature), and (6) power (social status and dominance over other people). These are values that correlate the most with behaviour. Security, conformity, benevolence, and achievements have less impact on the behaviour of an individual. In addition, personal value systems also impact decision making process and styles (Liedtka, 1989; Connor and Becker, 2003).

Korte (2012) encourages human resource development professionals and researchers to pay more attention to the fundamentals of the social realm. The author defines these fundamentals and proposes as a conceptual map of the social realm. It is proposed to not look at individuals as agents in an organisational environment but as a complex human social system where individuals take part in activities and relationships of groups, organisations and

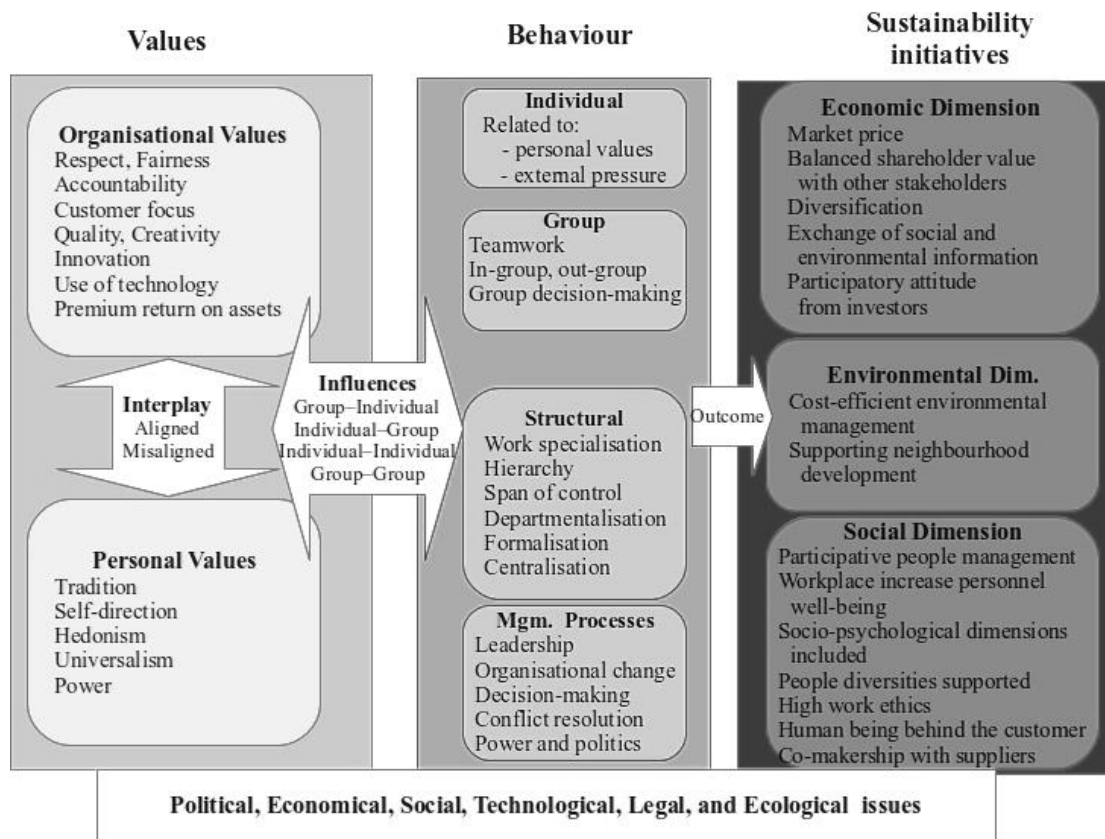
society (Korte, 2012). There are three levels in this framework – Philosophical, Macrosocial, and Microsocial.

The Philosophical level is based on “grounded in ontological and epistemological assumptions about the nature of the objects or subjects of analysis and our ability to understand them” (Korte, 2012, p.9). Macrosocial level, which is important for both research and practice, asks to pay attention to behaviours of people in organisations and proposes two main perspectives: (1) Conflict or cohesion - sees social systems as self-organising environments created by numerous relationships among humans and (2) Actor-Structure - focuses on relationships between social structures and people agency and what affects stability or change (Korte, 2012). The Microsocial level is about socio- psychological concepts of group and individual interaction defined by four domains: (1) Group–Individual domain - influence of a group on behaviour of an individual; (2) Individual–Group domain - influence of an individual to the group; (3) Individual–Individual domain - mutual influence, and; (4) Group–Group domain - interactions among formal and informal groups (Korte, 2012). Based on the literature review this paper now offers a new conceptual model of the interaction between values and corporate sustainability.

### **3. CONCEPTUAL MODEL**

Analysis of the existing literature shows that there is a considerable body of research that focuses on some specific areas of the interaction between personal and organisational values and how they impact corporate sustainability. However, there is still a lack of research with a holistic approach to the subject. The authors have developed a conceptual model based on existing literature to expose complexity of the environment, show elements of it, and how those elements are linked together and influence each other.

The conceptual model is designed by combining the Values perspective, Behaviour perspective and Sustainability initiatives perspective (Figure 1). Sustainability initiatives perspective is designed from van Marrewijk and Werre’s (2003) model. This model provides an overview of the relationships between the different factors – values, behaviour and sustainability initiatives – in order to aid in the understanding of how values and behaviour influence sustainability initiatives. In the conceptual model the characteristics of at least Caring level of van Marrewijk and Werre’s (2003) model are used to describe core elements of sustainable development.



**Figure 1.** Conceptual model

*Source: Developed by the authors*

The values perspective consists of organisational and personal values. The level of value congruence between company values and personal values determines what factors influence employee commitment to the organisational values, how organisational and personal values change organisational behaviour and lead to sustainable performance. Organisational values correspond to the values of green company described in van Marrewijk and Werre (2003) 4P-matrix and comply with values revealed in the studies of Kelly et al. (2005) Sullivan, Sullivan and Buffton (2002), Cameron and Quinn (2011) and other authors mentioned in the literature review. The list includes Respect, Fairness, Accountability, Global citizenship, Customer focus, Quality, Creativity, Innovation, Use of technology, Integrity, and Premium return on assets.

Personal and organisational values interplay and can be either Consonant or Contending (Liedtka, 1989). Although Liedtka (1989) calls the association (and lack of association) between values consonant and contending, this research will use the terms aligned and misaligned. Organisational values, personal values and interplay between them influence organisational behaviour in Group-Individual, Individual-Group, Individual-Individual, or Group-Group domains (Korte, 2012). In this conceptual model personal values that impact behaviour the most are included.

The internal factors of the Organisational Behaviour perspective are Individual, Group, Structural, and Management processes (Buchanan and Huczynski, 2010). The behaviour of individuals has a strong dependence on the Individual values and external circumstances which mean that without the external pressure individuals tend to realise their own values while strongly defined rules decrease the impact of personal values (Bardi and Schwartz, 2003). Group factors that influence the behaviour the most are Teamwork (Buchanan and

Huczynski, 2010), In-group and Out-group issues (Brewer, 2007; Naquin and Tynan, 2003), and Group decision-making problems caused by groupthink and group polarisation (Janis, 1973; Buchanan and Huczynski, 2010). Elements of structure that are closely related to behaviour include Work specialisation, Hierarchy, Span of control, Chain of command, Departmentalisation, Formalisation, and Centralisation, while the most important Management processes are Organisational change, Leadership, Decision-making, Conflict resolution, and Power and politics (Buchanan and Huczynski, 2010).

The outcomes of this complex system are potential sustainability initiatives. In this model sustainability initiatives are grouped according to van Marrewijk and Werre (2003) 4P-matrix sustainable organisation model. Economic or Profit dimension includes Fair price, Balanced shareholder value with other stakeholders, Expanded “ownership” possibilities, Exchange of social and environmental information, and Participatory attitude from investors. Environmental or Planet dimension includes Cost-efficient environmental management and Supporting neighbourhood development initiatives. Social or People dimension includes Participative people management, Workplace increasing personnel well-being, Socio-psychological dimensions included, People diversities supported, High work ethics, Human being behind the customer, Co-operation with suppliers.

Political, Economical, Social, Technological, Legal, and Ecological issues impact organisational behaviour since organisations do not operate in a vacuum (Buchanan and Huczynski, 2010). Those factors are not included in the scope of this model.

#### **4. GUIDELINES FOR MANAGERS TO DEVELOP ORGANIZATIONAL CULTURE FOR SUSTAINABILITY**

The following discussion provides a set of guidelines that can help managers align personal and organisational values to attain corporate sustainability goals. The guidelines propose structured overview of existing tools and a step by step methodology to assess current situation, set appropriate goals, and develop employee values that are compatible with organisational values.

##### **4.1. VISION AND ORGANISATIONAL CULTURE**

Cameron and Quinn (2011) advocate that the success of sustainable companies lie more in values and personal beliefs than in market forces or competitive positioning. In addition, common vision helps to establish organisational culture that encourages focus on goals, providing homogeneity of effort to achieve a higher performance. However changing an organisational culture is a difficult process where vision is one of the elements. Managers and leaders of the organisation should clearly understand the change necessary to get from the starting point to the final goal (Beck and Cowan, 1996). Changes require commitment of the management team and the ability to follow the chosen way. To make employees accept the vision managers have to explain it well and behave according to it (Groddeck, 2011). Their behaviour should be aligned with the statements they make.

Suggested tools to assess the existing organisational culture, draw a vision of future and develop a set of steps towards achieving it could include the Competing Values Framework and The Organizational Culture Assessment Instrument developed by Cameron and Quinn (2011). These would provide a practical approach to diagnosing and changing the organizational culture. Table 1 provides guidelines for assessing organisational culture and setting a vision of an organisation.

Table 1

**Guidelines for organisational culture**

Guideline	Summary	Tools / Methodology / Literature
Have a common vision of future	Help to achieve a higher performance through keeping focus on goals and providing homogeneity of effort	Competing Values Framework (Cameron and Quinn, 2011)
Clear picture of the current situation	Draws picture of what needs to be changed	The Organizational Culture Assessment Instrument (Cameron and Quinn, 2011)
Change plan and management commitment to changes	Draws different aspects of changes	Cameron and Quinn (2011) Beck and Cowan (1996)

*Source: Developed by the authors*

**4.2. VALUES OF SUSTAINABLE ORGANISATION**

Although there is no one set of values of sustainable companies there are a set of most common organisational values to cover all three dimensions of sustainability. The set is designed from the literature (Epstein, 2008; van Marrewijk and Werre, 2003; Hansmann, Mieg and Frischknecht, 2012; Barber, 2011). It consists of

- Respect and fairness,
- Accountability,
- Customer focus,
- Quality and creativity,
- Innovation,
- Use of technology, and
- Premium return on assets.

Table 2 provides guidelines for setting organisational values.

Table 2

**Guidelines for setting organisational values**

Guideline	Summary	Tools / Methodology / Literature
Analysis of current level of sustainability	Sustainability practices impact reputation among customers and relationship with stakeholders.	4P-matrix of Corporate Sustainability (van Marrewijk and Werre, 2003)
Setting organisational values	Most supported organisational values are respect and fairness, accountability, customer focus, quality and creativity, innovation, use of technology, and premium return on assets.	4P-matrix of Corporate Sustainability (van Marrewijk and Werre, 2003) Spiral Dynamics framework (Beck and Cowan, 1996; Barber, 2011)

*Source: Developed by the authors*

**4.3. DEVELOPING EMPLOYEE VALUES THAT ARE COMPATIBLE WITH ORGANISATIONAL VALUES**

It is highly important to align personal values with organisational values since in case of misaligned values employees are working without passion, with less productivity or they may even leave the company (Liedtka, 1989). Employee commitment on organisational values makes a stronger organisational culture, encourages employees to work towards common goals and thus improves the sustainability of organisations (Groddeck, 2011).

Aligned personal values can be developed in a number of ways. First of all, it is important to evaluate if the core values of the employees are aligned with organisational

values. If not, it is suggested to replace the employees with ones whose core values are aligned with organisational values (Liedtka, 1989). Value evaluation can reveal a potential for corporate sustainability (van Marrewijk and Werre, 2003). To evaluate personal and organisational value congruence van Marrewijk and Werre (2003) propose to use DBR-values-audit model.

Beck and Cowan (1996, p.101) suggest that, "You cannot change people, but people can change and you may facilitate the process or stand in its way." Although values can be changed only by employees themselves the existing literature shows multiple methods to encourage employees to change. Thinking and evaluating themselves is the method of self-development. Life experience is also a driver of changes of personal values. Since in the case when a particular personal value is not a core value that cannot be changed and the employee is able to behave according to external rules or procedures, organisations can set strict regulations and make employees experience different behaviour even if it is difficult and sometimes painful to encourage them to accept some organisational value. Organisations can encourage employees towards self-development at three different levels - Philosophical, Macrosocial, and Microsocial (Korte, 2012). In this article only the domains of microsocial level are looked at. At this level human resource development is influenced by interactions of individuals and groups. There are four domains of interaction: Group-Individual; Individual-Group; Individual-Individual, and Group-Group domain (Korte, 2012).

Managers as individuals can influence behaviour and related values of other individuals and groups. Managers should be role models that employees want to follow and also explain to employees why and how to act in different situations. Beside managers, a charismatic informal leader can also influence individuals and groups. Organisations should pay attention to whether this influence helps to align personal values to organisational values or makes some employees or even groups to behave against organisational values and common culture as it stated in Groddeck (2011).

The structure defines intergroup relationship thus it influences the group-group interactions and related behaviours (Buchanan and Huczynski, 2010). Top management responsibility is to create a structure that supports accountability and helps expand teamwork beyond one separate structure.

Groddeck (2011) reveals the importance of information that supports sharing of changes through different channels. Humans are different thus they perceive, learn, and accept information differently. Wenger (2009) offers the Communities of Practice (CoP) method to encourage learning and share knowledge. Some of the channels that managers can use to share information and support value changes are the following:

- E-mails,
- Internal portals,
- Visual posters,
- Special videos,
- Newsletters,
- Meetings,
- Individual discussions,
- Formal trainings,
- Communities of Practices, and
- Out of office activities.

Through the information sharing channels employees learn values and then apply them in their work. Table 2 provides guidelines for developing employee values.

Table 3

**Guidelines for developing employee values**

Guideline	Summary	Tools / Methodology / Literature
Audit of core personal values of managers and employees	Core personal values give insight on cultural potential of corporate sustainability	DBR-values-audit model (van Marrewijk and Werre, 2003)
Facilitating self-development		
Information sharing	Knowledge and information is the basis of self-development and implementation of changes. Sharing channels are e-mails, internal portals, visual posters, special videos, and newsletters.	Buchanan and Huczynski (2010) Groddeck (2011)
Supporting self-development activities	Formal trainings, communities of practices, out of office activities help to acquire new knowledge.	Communities of Practices Wenger (2009) Korte (2012)
Present information referenced to economical, ecological and social dimensions of CS	Sustainability consists of three dimensions thus all of them should be included in the information sharing cycle	Groddeck (2011)
Offering new experiences		
Appropriate management processes and organisational values	Well-developed processes make employees get new experiences.	Buchanan and Huczynski (2010)
Appropriate structure	Structure influences the group-group interactions, facilitates teamworking and supports accountability and collaboration. Managers of divisions of the structure should lead by example.	Buchanan and Huczynski (2010) Cameron and Quinn (2011)

*Source: Developed by the authors*

#### 4.4. IMPLICATIONS FOR ORGANISATIONS

In order to implement the guidelines organisations need time, human resources and sufficient funds to support changes. First of all it is necessary to employ, train or hire specialists that are able to audit and assess current situation and together with the top management develop change processes. Financial resources are important in hiring experienced leaders and training existing managers and employees. However, value changes can be slow and there is no fast solution. Time might become the most critical issue.

#### 5. CONCLUSIONS AND RECOMMENDATIONS

This paper has identified several organisational values as key components for sustainable companies to exhibit – respect and fairness, accountability, global citizenship, customer focus, quality and creativity, innovation, use of technology, integrity, premium return on assets. However, these are affected by personal values and other factors that push individuals to act according to them.

Various interactions can change and shape organisational and personal values. Teamwork is a common method of collaboration in a sustainable organisation. Structure defines work specialisation, creates formal groups, and defines hierarchy and span of control. Management processes provide a system to perform operational tasks and manage organisational changes.

Organisational behaviour is influenced by social realm where the main domains are interactions between a Group and an Individual, an Individual and a Group, an Individual and another Individual, or a Group and another Group. While all of these shape organisational behaviour, they are created based on and affected by personal and organisational values. Interaction and collaboration among individuals and groups depends on what is seen as a preferable value of the persons involved and the context of the whole organisation.

Political, economic, social, and technological factors shape external issues that influence both perspectives and the consequential sustainability initiatives. Sustainability initiatives consist of three dimensions – Economic, Environmental, and Social. The scope of sustainability initiatives depends on organisational values. In organisations where dimensions of sustainability are incorporated in organisational values and organisational culture, they are reflected in the company's sustainability initiatives.

Applying market price, product, and service diversification, participatory attitude from investors and balanced shareholder value with other stakeholders are the main initiatives of the economic dimension. Environmental initiatives include cost-effective environmental management and supporting community development. Social dimension of sustainability includes socio- psychological factors related initiatives, participative people management, activities that increase personnel well-being, and initiatives to guarantee high work ethics and support people diversities. Organisations will incorporate sustainability initiatives which they see as valuable for the organisation and the environment around it. If employees do not have the same values as the organisation it is difficult to carry out the intended sustainability initiatives as they are based on values and realised through organisational behaviour.

Changing values may be a long and time consuming process where information sharing is important to support self-development, thus management should provide a varied range or relevant information sharing channels to appeal to different learning styles. On a microsocial level, managers can lead by example.

## 6. FURTHER RESEARCH

The conceptual model is useful for understanding and considering the role of organisational and personal values and their importance for the development of sustainability in companies. It could also be used as a basis for future research on the topic either to validate it in different industries and cultures or explore specific concepts in the model in more detail such as, the effects of personality on value formation. A study could be carried out to examine the effect of personality traits on personal values themselves and the ability to change and develop an individual's own values in an organisational context. Using the Big Five personality traits framework could be one of the options that could be used to deepen and further develop the model.

## REFERENCES

1. Ball, D.R. (2010), "A Technology, Innovation, and Operations Strategic Model for Both Domestic and Global Sustainability", Proceedings of the Northeast Business & Economics Association, pp.485-491.
2. Barber, M. (2011), "Leveraging organisational values for sustainability initiatives", Journal of Futures Studies, 15(3), pp.53-72.
3. Bardi, A. and Schwartz, Sh. (2003), "Values and Behaviour: Strength and structure of relations", Personality and Social Psychology Bulletin, 29, pp.1207-1220.
4. Beck, D.E. and Cowan, C.C. (1996), *Mastering Values, Leadership, and Change*, Malden: Blackwell Publishing Ltd, 352p.
5. Bertazzi, P.A. (1991), "Long-term effects of chemical disasters. Lessons and results from Seveso", Science of The Total Environment, 106(1-2), pp.5-20.



6. Brewer, M.B. (2007), "The Importance of Being We: Human Nature and Intergroup Relations", *American Psychologist*, 62(8), pp.728-738.
7. Buchanan, D.A. and Huczynski, A.A. (2010), *Organisational Behaviour*, 7th ed., Italy: Rotolito Lombarda.
8. Cameron, K.S. and Ettington, D.R. (1988), "The Conceptual Foundations of Organizational Culture", in Smart, J.C. (Ed.), *Handbook of Theory and Research*. New York: Agathon, pp.356-396.
9. Cameron, K. S. and Quinn, R. E. (2011), *Diagnosing and Changing Organizational Culture*. 3rd ed. San Francisco: Jossey-Bass, 256p.
10. Chen, T.T.Y. (2001), "Ethics Control Mechanisms: A Comparative Observation of Hong Kong Companies", *Journal of Business Ethics*, 30(4), pp.391-400.
11. Chinander, K.R., (2001), "Aligning accountability and awareness for environmental performance in operations", *Production and Operations Management*, 10 (3), pp.276-291.
12. Chow, W.S. and Chen, Y (2012), "Corporate Sustainable Development: Testing a New Scale Based on the Mainland Chinese Context", *Journal of Business Ethics*, 105(4), pp 519-533.
13. Connor, P.E. and Becker, B.W. (1975), "Values and the Organization: Suggestions for Research", *Academy of Management Journal*, 18(3), pp.550-561.
14. Connor, P.E. and Becker, B.W. (1994), "Personal values and management", *Journal of Management Inquiry*, 3(1), pp.67-73.
15. Connor, P.E. and Becker, B.W. (2003), "Personal value systems and decision-making styles of public managers", *Public Personnel Management*, 32(1), pp.155-180.
16. Corbett, L.M. (2009), "Sustainable operations management: A typological approach", *Journal of Industrial Engineering and Management*, 2(1), pp.10-30.
17. Davis, J.H., Schoorman, F.D. and Donaldson, L. (1997), "Toward a Stewardship Theory of Management", *Academy of Management Review*, 22(1), pp.20-47.
18. Dawkins, J. and Lewis, S. (2003), "CSR in Stakeholder Expectations and their Implication for Company Strategy", *Journal of Business Ethics*, 44(2-3), pp.185-193.
19. Dowell, G., Hart, S. and Yeung, B. (2000), "Do Corporate Global Environmental Standards Create or Destroy Market Value?" *Management Science*, 26(20), pp.1059-1074.
20. Duncan, R. (1979), "What is the Right Organization Structure? Decision Tree Analysis Provides the Answer", *Organizational Dynamics*, 7(3), pp.59-80.
21. Economist Intelligence Unit (2008), "Doing good: Business and the sustainability challenge", *Economist Intelligence Unit*, February 11, pp.1-54.
22. Elkington, J. (2012), "Sustainability and the Tower of Babel", *Director* (00123242), September 1, pp.28-28.
23. Epstein, M.J. (2008), *Making Sustainability Work : Best Practices in Managing and Measuring Corporate Social, Environmental and Economic Impacts*. Sheffield: Berrett-Koehler Publishers, 288p.
24. Epstein, M.J. and Roy, M.-J. (2001), "Sustainability in Action: Identifying and Measuring the Key Performance Drivers", *ScienceDirect: In Long Range Planning*, 34(5), pp.585-604.
25. Graves, C. W. (1965), "Levels of Human Existence and their Relation to Value Analysis and Engineering", *Fifth Annual Value Analysis Conference*, available at [http://www.clarewgraves.com/articles\\_content/1964-5/1964-5\\_1.html](http://www.clarewgraves.com/articles_content/1964-5/1964-5_1.html) (accessed: 12 June 2013).
26. Groddeck, V. (2011), "Rethinking the Role of Value Communication in Business Corporations from a Sociological Perspective – Why Organisations Need Value-Based Semantics to Cope with Societal and Organisational Fuzziness", *Journal of Business Ethics*, 100(1), pp.69-84.
27. Guldenmund, F.W. "(Mis)understanding Safety Culture and Its Relationship to Safety Management", *Risk Analysis: An International Journal*, 30(10), pp.1466-1480.
28. Hansmann, R., Mieg, H.A. and Frischknecht, P. (2012), "Principal sustainability components: empirical analysis of synergies between the three pillars of sustainability", *International Journal of Sustainable Development & World Ecology*, 19(5), pp.451-459.
29. Info-Tech Research Group (2009), "Green IT: Why Mid-size Companies Are Investing Now", *Info-Tech Research Group*, available at: <http://www-03.ibm.com/press/attachments/GreenIT-final-Mar.4.pdf> (accessed: 12 June 2015).
30. Janis, I.L. (1973), "Groupthink and Group Dynamics: A Social Psychological Analysis of Defective Policy Decisions", *Policy Studies Journal*, 2(1), pp.19-25.
31. Kelly, C., Kocourek, P., McGaw, N. and Samuelson, J. (2005), "Deriving Value from Corporate Values", *The Aspen Institute*, January, pp.1-12.
32. Korte, R. (2012), "Exploring the social foundations of human resource development: A theoretical framework for research and practice", *Human Resource Development Review*, 11(1), pp.6-30.
33. Kunreuther, H. and Bowman, E.H. (1997), "A Dynamic Model of Organizational Decision Making: Chemco Revisited Six Years After Bhopal", *Organizational Science*, 8(2), pp.404-413.
34. Kurtz, R.S. (2008), "Coastal Oil Spill Preparedness and Response: The Morris J. Berman Incident", *Review*

- of Policy Research, 25(5), pp.473-486.
35. Liedtka, J.M. (1989), "Value congruence: The interplay of individual and organizational value systems", *Journal of Business Ethics*, 8(10), pp.805-815.
  36. Lo, S.F. and Sheu, H.J. (2007), "Is corporate sustainability a value-increasing strategy for business?", *Corporate Governance*, 15(2), pp.345-358.
  37. van Marrewijk, M. and Werre, M. (2003), "Multiple Levels of Corporate Sustainability", *Journal of Business Ethics*, 44(2/3), pp.107-119.
  38. Morier, D., Bryan, A.E.B. and Kasdin, L. (2013), "The effects of group identity, group choice, and strength of group identification on intergroup sensitivity", *Group Dynamics: Theory, Research, and Practice*, 17(1), pp.14-29.
  39. Nordberg, D. (2008), "The ethics of corporate governance", *Journal of General Management*, 33(4), pp.35-52.
  40. Ofori, D.F. and Sokro, E. (2010), "Examining the Impact of Organisational Values on Corporate Performance in Selected Ghanaian", *Global Management Journal*, 2(1), pp.52-65.
  41. Posner, B. (2008), "Another Look at the Impact of Personal and Organizational Values Congruency", *Journal of Business Ethics*, 97(4), pp.535-541.
  42. Preston, L. (2001), "Sustainability at Hewlett-Packard: From theory to practice", *California Management Review*, 43(3), pp.26-37
  43. Schwartz, S.H. (1992), "Universals in the content and structure of values: Theory and empirical tests in 20 countries", in Zanna, M. (Ed.) *Advances in experimental social psychology*, 25, New York: Academic Press, pp.1-65.
  44. Schwartz, S.H. et al. (2012), "Refining the theory of basic individual values", *Journal of Personality and Social Psychology*, 103(4), pp.663-688.
  45. Sheth, J. N., Sethia, N. K., and Srinivas, S. (2011), "Mindful consumption: A customer-centric approach to sustainability", *Journal of the Academy of Marketing Science*, 39(1), pp.21-39.
  46. Sullivan, W., Sullivan, R. and Buffton, B. (2002), "Aligning individual and organisational values to support change", *Journal Of Change Management*, 2(3), pp.247-254.
  47. Uhlaner, L., Floren, R. and Geerlings, J. (2007), "Owner Commitment and Relational Governance in the Privately-Held Firm: An Empirical Study", *Small Business Economics*, 29(3), pp.275-293.
  48. WCED (1987), "Report of the World Commission on Environment and Development: Our Common Future", World Commission on Environment and Development (WCED), available at: <http://www.un-documents.net/our-common-future.pdf> (accessed: 10 July 2013).
  49. Wenger, E.C. (2009), *Communities of Practice and Social Learning Systems: the Career of a Concept*, available at: <http://wenger-trayner.com/resources/publications/cops-and-learning-systems/> (accessed 10 July 2013).
  50. Wati, Y. and Koo, C. (2010), "The Green IT Practices of Nokia, Samsung, Sony, and Sony Ericsson: Content Analysis Approach", *Proceedings of the 43rd Hawaii International Conference on System Sciences (HICSS-43)*, pp.1-10, CD-ROM, IEEE Computer Society, January 2010.
  51. White, M. (2013), "I know it when I see it", *Ecological Economics*, 86(2-3), pp.213-217.

# WHY CONTEMPORARY FINE ART ARTISTS ARE STARVING IN LATVIA?

**Agnese Aljena**

*BA School of Business and Finance, Riga, K.Valdemara 161, Latvia*

*e-mail: [agnese@agnesealjena.com](mailto:agnese@agnesealjena.com)*

## **Abstract**

Purpose - the aim of the paper is to understand why fine art market in Latvia seems to be very slow despite rapidly growing global art market.

Methodology – literature review on contemporary fine art market and affluent society; review of wealth studies and fine art market reports for correlation analysis.

Findings - governments and philanthropists, thus deforming natural market balance of supply and demand, support Fine Art industry. Subsidies in Latvia are directed to art making, thus stimulating the supply. The paper proves that situation in Latvia is different from the global art market epicentres, where demand for the fine arts is high; there is a lack of local art buyers in Latvia, thus stimulating art creation is not supporting local art market. The article describes the ecosystem of fine art market, consisting of primary and secondary market for sales & ownership and support & inspiration environment. Two mandatory elements of the Fine Art market are the artists and the art buyers. This article takes deeper analysis of the art buyers as financial fuel for the whole industry. Recent decades have showed changes in wealth acquisition leading to changes in the art buyer values system, taste and art acquiring. This explains new phenomena in Fine Art market – buying artworks of live contemporary artists. Deeper analysis is done on finding correlation and regression of factors affecting art sales volumes in secondary art market in global art market epicentres. The main finding is that art market is strongly affected by the number of millionaires in certain cities. Since Latvia doesn't have high number of rich and ultra-rich people, Fine Art market is suffering demand deficit and supply overflow, thus leading to “starving artist” phenomena. This means that all the efforts of the artists, galleries and government should be refocused to looking for additional sales channels and sales promotion on all levels of the industry.

Practical and social implications – contemporary fine art artists, their representatives, managers and galleries as well as government offices related to financing the industry and philanthropists willing to help the industry can directly apply the findings.

Originality – first time described contemporary fine art market ecosystem scheme, finding correlation of affluent society and art market sales volumes, redirection of subsidies towards sales and demand stimulation.

Keywords: contemporary fine art market; affluent art buyers, fine art ecosystem; fine art subsidies

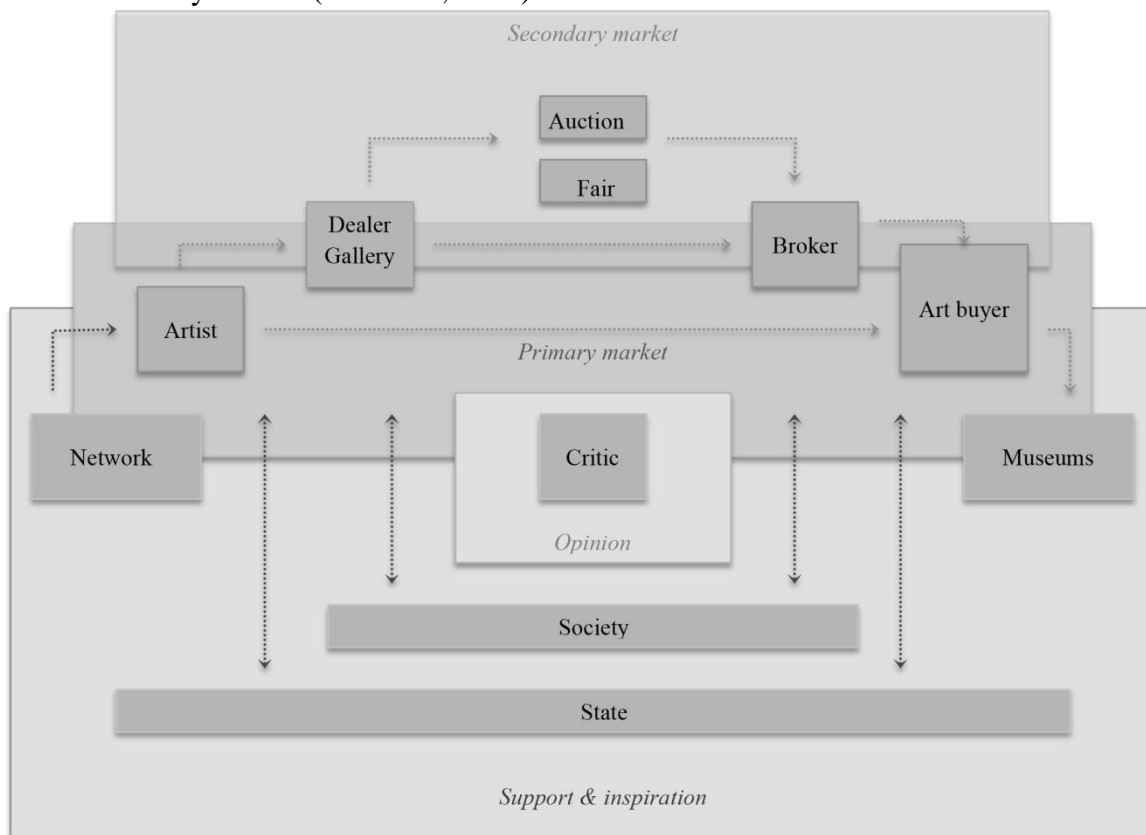
Research paper: contemporary fine art market research

## **1. INTRODUCTION**

Starting with Kandinsky's (1911) statement that art serves as an inspiration for the whole society, with its “spilling effect” (Bilton, 2010; Klammer, 1996; Abbings 2002, Throsby 2001) society and governments have supported the development of ecosystem for the fine arts. It is done through subsidies in the form of art education, direct support for art creation and cultural policies and support of state owned collections and museums. Although state and society are closely involved in supporting art industry and being beneficiary in the form of inspiration for further development, in many cases they are not directly involved in art sales and ownership of the artworks (except public state owned museums) thus deforming natural market balance of art supply and demand. In the case of oversupply, artists feel the myth of “starving artist” or not earning enough to continue their artistic endeavours, as Latvian fine art artists describe it. This threatens fine art market development and spoils the initial Kandinsky's idea of inspiring the whole society. Before making any statements for possible reasons, one has to understand how contemporary fine art market operates.

## 2. CONTEMPORARY FINE ART ECOSYSTEM

Thornton (2008) identifies 6 individual roles in the art world: artist, dealer, curator, critic, collector and auction-house expert. The main players involved in art world by Thornton (2008) are the auction, the fair, the artist and his/her studio, the magazine, the competitions, the biennale, the critic. Thompson (2008) identifies main elements in art business as follows: auctions, dealers, artists, collectors, art fairs, critics and museums. Moureau & Sagot-Duvaurox (2012) add art schools and artist associations to the list of above-mentioned players as educators and artist networks playing important role in artist promotion and support. They also add state, municipalities and local communities as well as organizers of local events like fairs and other events with artist participation. Goodwin (2008) identifies two level art market – primary, where artist sells his/her artwork either to dealer/gallery or directly to collector and secondary, where resale of artwork happens through auction house, fairs and further dealer/gallery/broker network. Goodwin estimates the sales proportion of primary and secondary markets one to three since the artworks of only well-known and popular artists are sold in secondary market (Goodwin, 2008).



**Figure 1.** Ecosystem of Contemporary Fine Art, developed by author

Taking into account all players mentioned above, Contemporary Fine Art market has a common basic operating model (Figure 1). The main elements are:

- Artists – as “solo” artists creating art or creating in groups or by employing fellow artists.
- Art buyers – individuals, companies and institutions buying art and in some cases building collections either for pleasure and exposition or as an alternative investment instrument.

- Dealers and Brokers – mediators between Artists and Auction houses; Auction houses and Art buyers or directly between Artists and Art buyers. Dealers buy and sell art – they are owners at some point. Brokers arrange the buying/selling deal, taking commission per deal.
- Gallery – owned by most respectful art dealers as exposition spaces and physical place where art is exposed and collectors are met. Virtual galleries are becoming more and more popular.
- Critics – opinion leaders in Contemporary Art analysing, interpreting and evaluating art. Their opinions are printed in magazines, newspapers, brochures, books and web. Critics can be individuals specializing in the field or juried competitions giving opinion on the art works.
- Auction – wholesalers in Fine Art Market – auction houses sell art in bulk and work only with dealers and galleries.
- Fairs – regular temporary art exhibition, sales and networking events like art fairs, biennales.
- Museums – public and private museums exhibiting their permanent art collections and temporary exhibitions, curators are responsible for the content and compilation of the exhibited art.
- Society – including society in large, as well as admirers and fans.
- State – state, municipalities, public organizations, supporting infrastructure of art industry, giving material and other support.
- Network – people and legal entities supporting the artist – art schools, associations, alumni networks, suppliers, co-creators, “muses”, patrons, Maecenas and other who are directly or indirectly involved in art creation process.

Art sales nowadays happen both online and offline. The number of online galleries is growing rapidly, artists sell directly through their websites, and sales through online channels has reached 3,3 billion in 2014 USD and comprises 6% of all art sales (TEFAF, 2015). Artists sell their art to dealers, brokers and galleries and directly to art buyers and collectors. They are not going directly to art fairs and auction houses (with some celebrity exceptions), that work on wholesale basis and galleries and dealers are their main partners. Artists are supported by their network, both financially and as inspiration, but in most cases networks are involved in marketing and networking not direct sales. Both state owned and private museums are the ones showing purchased art to the public. They are the main inspiration source for the society and masses, although artists communicate directly with their fans and admirers through different events, frequently organised by municipalities, galleries and their network. Online communication and social networks with art sharing feature are taking more important role as the inspiration source. Critics as opinion leaders are not directly involved in art sales and ownership; they are the ones forming opinion for mass media, books and other publications.

Within this mass of different relationships and benefits, two elements stand out as the mandatory for having art market – Artist and Art buyer. All other elements either won't exist without these two (like Dealers, Galleries, Auction houses & fairs, Brokers, Museums and Critics) or could exist in slightly different arrangement (like Network, Society & State). This article takes a deeper look at Art buyers as one of the core elements of the art ecosystem fuelling it with money.

### 3. ART BUYERS – WHO THEY ARE AND WHERE?

TEFAF (2014) have identified that art is bought by private collectors 78%, public institutions 9%, corporations 7% and others 6%. 50% of sales volume happens in gallery, 19% in local fairs, 14% in international fairs, 7% privately, 5% in auctions and 5% online (TEFAF, 2014). Although recent trend in Contemporary Fine Art market is that majority (over 80%) of artwork are sold in auction houses with price tag below 5000 EUR (Artprice, 2014), thus making high art affordable and many sales outside auction houses are quite affordable, still art buyers are the ones with high income or wealthy customers. As the majority are private collectors, special attention is paid to their mind-set, location and art buying habits.

There are different classifications in sources for wealthy part of population, but most consider being wealthy or affluent starting with household annual income above 100 000 USD (Pompian, 2009; Oechsli, 2005). The wealth growth in the world reaches new records every year with 8.3% worldwide increase in 2013 reaching USD 263 trillion (CreditSuisse, 2014). Number of USD millionaires is growing as well, increasing 12,4% in 2013 and adding 3,8 millions of millionaires reaching total number of 34,8 millions of rich people (CreditSuisse, 2014). USA hosts largest proportion of dollar millionaires – 41%, followed by Japan 8%, France 7%, Germany 6%, UK 6%, Italy 5%, Australia 4%, China and Canada 3%, Switzerland 2%, Sweden, Spain, Taiwan, Belgium, Netherlands 1% and the rest of the world 10% (CreditSuisse, 2014). The number of ultra-high net worth individuals (UHNWI) estimated by CreditSuisse (2014) of net worth exceeding 50 million USD reach 128'200 in 2013 and. Knight Frank (2014) estimates that there are 167'669 UHNWI exceeding net worth 30 million USD in the world in 2013 and 172 850 in 2014 (Knight Frank, 2015). Both sources forecast significant growth in the rich sector – Knight Frank (2014) says number of 30m+ USD UHNWI will grow by 28% during next 10 years and CreditSuisse projects 53% growth in the number of USD millionaires (2014).

During the last two decades there has been a significant shift in wealth acquiring – majority of new millionaires are entrepreneurs, who have earned their money by their own work instead of inheritance of wealth (Barclays, 2013). The development of technology sector has shortened the time necessary to become rich, thus allowing wealth to be accumulated at a faster pace and become available within human lifecycle (Barclays, 2013). The fast acquiring of wealth means higher risk bearing (Barclays, 2013, p.15), so the new rich are more risk tolerant and their values, lifestyle and spending habits reflect this characteristic, thus making them different from those who have inherited their wealth and are more wealth preservation oriented. Rapid wealth accumulation also means dramatic change of the person's lifestyle, social status and values.

Goldbart, Jaffe & DiFuria (2004) has identified 4 developmental stages of wealth identity – honeymoon, wealth acceptance, identity consolidation and balance achieving. Persons going through these stages are very different in their spending habits, but all of them have to adjust to new circumstances in order to find their new identity and settle values. Many rich people come to point where philanthropy becomes an important place in their lives. Art buying can be perceived as philanthropy towards artists and art is reflecting owners values – these two feature makes art acquiring very popular among affluent society. Oechsli (2005) describes affluent people as hard working, more focused, more committed to their careers, more clear about their goals, and willing to pay for the price to achieve. As first generation millionaires they have the same past as other middle-class society members, but their mind-set is different due to accumulated wealth and gained experience on the way to it.

Art, along with other luxury objects, play major role in the process of new identity and is one of the popular philanthropy objects. Art, wine, classic automobiles, fine art tapestry, jewellery, antique furniture, coin collections are typical passion investments that are special treasures for their owners. 9,6% of the total wealth is treasures and is a powerful expression of values and status (Barclays, 2012). Fine art is the most popular treasure in UK, Ireland, China and South Africa, the second most popular in USA, Mexico, Spain and Switzerland, and third in Japan and Singapore (Barclays, 2012). 62% of passion investment holders say their primary motivation is enjoyment of owning the treasure, whereas only 18% consider passion items as pure investment (Barclays, 2012). Fine art ranks no 2 as the most collected passion investment in global scale with popularity increasing for 44%, especially in Latin America (86%), Middle East (58%) and Europe 46% (Knight Frank, 2014).

First generation wealth means that many rich people just start to build their art collections, and attractiveness of contemporary art with its actual live values and problem definitions is a good beginning. Collections usually start with few pieces intended for home decoration. First generation millionaires don't have inherited properties, so their first piece will be from the contemporary art to correspond their designer living space. This might be one of the reasons explaining rapid growth of sales of art by living artists in recent years.

Building the art collection requires specific knowledge of artists, their value and level of artwork. Dealers, critics and galleries play educational and consultative role in this process and become vital element of the whole picture. There are available rankings for artists sold via auction houses, but affordable art remains mystery and needs professional guidance. Thompson (2008, p.9) talks about insecurity as one of the main components in art buying, and critics, dealers, galleries and museums exhibiting certain art are the ones minimizing this insecurity.

#### **4. GLOBAL ART MARKET**

Global art market can be viewed on two levels according to overall art market ecosystem (Figure 1). Primary market as closer to artists and creation process is more local, with lower price levels, with more personal contact and more mysterious and volatile decision making reasons for the art buyers. Secondary market is more business and investment oriented, more global, with higher price tags, more risk associated.

Art market reports like Artprice and TEFAF reports represent secondary art market, collecting information about sales in auction houses and by galleries and dealers. There is no statistics available for primary market, but developed secondary market infrastructure accumulates market players geographically, thus primary market is more developed and with more possibilities in those regions where secondary market is active.

Table 1 gives overview of main factors influencing development of secondary fine art market in the world – overall wealth of the country, number of rich and ultra-rich buyers and number of art museums as figure representing overall cultural interest in fine arts.

Table 1

**Main geographic players of secondary fine art market**

<i>country</i>	<i>art sales, 2013, millions USD (Artprice 2013)</i>	<i>USD millionaires, 000, 2013 (Knight Frank, 2015)</i>	<i>UHNWI, 2013 (Knight Frank, 2015)</i>	<i>GDP per capita, 2013, USD (author*)</i>	<i>Fine art museums, 2015 (author*)</i>
US	344	13216	39378	52839	847
China	257	1123	7905	6569	8
UK	220	1529	10149	39049	205
Hong Kong	97	103	2560	38605	3
France	26	2211	3800	42991	170
Taiwan	9.5	309	1503	20706	7
Turkey	6.8	94	1923	10971	4
Qatar	6.3	21	286	104655	7
Sweden	5.7	506	3147	57297	20
Singapore	4.4	174	3154	52918	5
UAE	4.3	48	625	43185	10

\*data gathered by available information online

Analysing correlation of factors influencing art sales in secondary market, factors influencing art sales on country level the most are number of ultra-high net worth individuals with total wealth of \$30 million and more ( $r=0,82$ ), number of millionaires ( $r=0,73$ ) and number of fine art museums with museum status ( $r=0,73$ ), GDP per capita has insignificant effect ( $r=-0,2$ ).

Deeper analysis of factors influencing art sales most on city level (table 2) was done, since art market is very urban phenomena.

Table 2

**Main cities of secondary art market**

<i>city</i>	<i>art sales, EUR mio 2012/2013 (Artprice, 2013)</i>	<i>\$ millionaires, 000, 2013 (WealthInsight, 2013)</i>	<i>Fine art museums, 2015 (author)</i>	<i>UHNWI (Knight Frank, 2015)</i>
New York	344	389	48	3008
London	220	281	35	4364
Beijing	203	213	2	1408
Hong Kong	97	187	3	2690
Paris	26	219	39	1521
Shanghai	23	166	3	1095
Taipei	9.5	No data	11	1317
Guangzhou	8.8	No data	1	327
Doha	6.3	No data	7	280
Stockholm	5.7	No data	5	479
Singapore	4.4	157	5	751
Dubai	4.3	No data	10	383

On the city level number of millionaires have the most impact ( $r=0,89$ ), number of UNHWI also has significant impact ( $r=0,76$ ) and number of museums has moderate impact ( $r=0,6$ ) to art sales.



The differences on country and city level can be explained by fact that sufficient environment of fine art market infrastructure is built when number of ultra-rich people reaches certain level. This stimulates further accumulation of market players. On city level the main impact is the number of buyers and this includes not only ultra-rich but also millionaires and affluent people.

## 5. ART MARKET IN LATVIA

Since there are no auction houses in Latvia and the art auction culture hasn't developed yet, Latvian art market operates only on the primary market level. There are several fine art museums in Latvia – National Art Museum, Arsenal – exhibition hall of National Art Museum and Museum Rīgas birza, a department of National Art Museum, Mark Rothko center in Daugavpils, Museum of decorative and applied arts. There are ~10 main commercial galleries in Riga – Maksla XO, Jekabs, Daugava, Antonija, Birkenferds, Pegazs, Pop-up, Mukusalas makslas salons. The network functions in Latvian art market are realised through Contemporary Art Center, Latvian Artist Union and Art Academy of Latvia as the main education provider in Latvia. Local art schools in regions also are playing active role in art life in local municipalities.

Since there is no direct statistical data for number of artists in Latvia and EU for references (ESSnet, 2012), number of visual artists was estimated by comparing data for selected countries for which there was available statistics on number of visual artists – Australia 0,07% (Australian Bureau of Statistics, 2014), UK 0,08% (Creative Blueprint, 2012) and USA 0,1% (Princeton University, 2001) of total population, giving on average a “natural” proportion of 0.09% of visual artists of the total population. In Latvia's case 0.09% would result in 1863 artists. Latvian Artists' Union has 1254 members (2015), but the organisation has long history from the soviet times and many members still in the list are not active artists, also majority of young artists don't join the organisation since its activities are limited. Due to this reason, author suggests to use “natural” number of artist population – 0.09% or 1863.

As for the art buyers - Latvia has very low number of rich and ultra-rich people – 68 ultra-rich (KnightFrank, 2014), and estimate for number of millionaires in Latvia is around 1000 (Lapsa, 2014). According to Eurostat (2015), the richest 1% of Latvian population earn just slightly above 20000 EUR per annum that doesn't allow to become serious art collector, but allows to buy several art pieces for home. Due to lack of centralised direct art market sales statistics, for estimating Fine art market potential (Table 3) following world trends are taken into account: 9,6% of affluent people invest in passion treasures (Barclays, 2012) and as the average factual and willingness to own art in near future is 20% (Barclays, 2012). By using these global trends for estimating fine art market potential in Latvia, the total number of serious art buyers in Latvia is estimated slightly above 4000 people with budget for the art buying around 2,3 million EUR per annum.

Table 3

**Fine Art market potential estimate for Latvia, 2014/2015**

	Number of affluent people (Eurostat, 2015; Lapsa, 2014)	Art owners (20% of affluent) (Barclays, 2012)	Estimated wealth of art owners*, EUR	Wealth increase, EUR, 8,3% per annum (CreditSuisse, 2014)	Passion investments, EUR (9,6% of wealth) (Barclays, 2012)	Art budget, EUR (44% of passion investments) (Knight Frank, 2014)
1% richest (except millionaires)	19700	3940	394 000 000,00	32 702 000,00	3 139 392,00	1 381 332,48
LVL millionaires	1000	200	284 600 000,00	23 621 800,00	2 267 692,80	997 784,83
					Total	2 379 117,31

\*estimated average wealth is assumed 100000 EUR for 1% richest Latvia inhabitants and 1'423'000 EUR (1'000'000 LVL) for millionaires.

Although the annual art market potential in Latvia seems reasonable, author compares it with average sales volume available per visual artist. Dividing annual potential market sales volume with number of artists - 1863, on average each artist can count for around 1277 EUR annually or 106 EUR monthly. Even if assuming lower number of artists – 1254 as reported by Latvian Artists' Union, Latvian visual artists can count for 1897 EUR annually or 158 EUR monthly sales from arts. This number reflects only possible sales amount for the artist, not including material and art creating costs that are quite high in visual arts. This number also doesn't include gallery overheads, which means that Latvian art market doesn't have enough art buyers, leading to "starving artists" phenomena in the country.

Latvia's state support for visual fine art through Valsts Kulturkapitāla Fonds is directed towards creation of fine art; further education; non-commercial work of galleries, exhibition halls, education entities; publishing of art books and brochures; residencies and creative workshops – activities to support art supply (Valsts Kulturkapitāla fonds, 2015). It is explicitly stated that support is not provided for web-page development, which is important sales and information channel linking artists and art buyers both locally and globally. State doesn't support also marketing activities for exhibitions and other art events. The only activities that would help finding additional local or international art buyers are support for exhibition and festival organisation (but excludes marketing) and support for artists to participate in international art events.

## 6. RESULTS AND DISCUSSION

The analysis of global Fine Art market has led to conclusion that visual fine art is bought by rich and ultra-rich persons. Wealthy and affluent consumer reports has showed, that only certain number – 20% of wealthy people invest part of their money (9,6%) passion investments, and only part of it – 44% is spent on fine art. Taking these global trends and applying to the case of Latvia and number of ultra-rich and affluent people, money available for local art market is insufficient to naturally "feed" number of visual artists in Latvia, leading to starving artist phenomena. As it was noted in the introduction, state supports art and culture for its spilling effect and could fill the gap of missing demand. The focus of state support for art – Valsts Kulturkapitāla fonds is mainly directed toward art creation, thus stimulating art supply and contradicting to actual situation where all efforts should be directed to art sales locally and internationally.

## CONCLUSIONS AND RECOMMENDATIONS

Despite the rapid growth of contemporary fine art market in the world, Latvian fine art artists are experiencing low demands of their art works. The reason is that Latvia doesn't have sufficient number of high-income earners. Nevertheless, country needs art industry for overall inspiration for society, therefore government is supporting the industry in the form of grants for art creation and several philanthropists are buying art for private collections. Still this doesn't allow the industry to develop naturally and Latvian art market has to look for other alternatives for the art sales.

One of the options is to develop internal market by increasing amount of information, educating society and helping for private investors to make decision on art purchase. One of such tools could be a local artist top in different categories, the experience taken from global art market. The top would serve as the first reference point for busy potential buyers in understanding contemporary fine arts. Additional financial support for specific art information media also could help to develop internal market.

The second option for the local artists is to go beyond Latvian art market and find sales channels either online or in other countries where the demand for the art is greater than in Latvia. Suggested regions are the ones with high number of wealthy people and developed art infrastructure, Table 1 can serve as reference.

The third option - since there is no local secondary market, the local galleries could investigate the possible participation in the world's secondary art market, take part in international art fairs, build

international network of other art market players, critics, galleries, fairs and auction houses. Government could help with financial aid for international affairs for local galleries and managers.

Fourth activity that would help art sales is educating art managers, gallery owners, art brokers and other art sales oriented occupations.

Fifth option is to establish government/philanthropist supported Latvian art gallery in world's art centres – London, New York, Beijing that could serve as the bridge for local art market to world's booming art market. Such gallery would operate as art embassy and build international network for the Latvian artists.

## REFERENCES

1. Abbings H. (2002). *Why are Artists Poor? The Exceptional Economy of Arts*. Amsterdam University Press, Amsterdam
2. Australian Bureau of Statistics (2014), *Arts and Culture in Australia: A Statistical Overview, 2014*, <http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/4172.0main+features232014>, retrieved 09/09/2015
3. Barclays (2012). *Wealth Insights. Profit or Pleasure? Exploring the Motivations Behind Treasure Trends. 2012*, Barclays PLC Group, UK, [https://wealth.barclays.com/en\\_gb/home/research/research-centre/wealth-insights.html](https://wealth.barclays.com/en_gb/home/research/research-centre/wealth-insights.html), retrieved 19/11/2015
4. Barclays (2013). *Wealth Insights. Origins and Legacy: The Changing Order of Wealth Creation. June 2013*, Barclays Plc Group, UK [https://wealth.barclays.com/en\\_gb/home/research/research-centre/wealth-insights.html](https://wealth.barclays.com/en_gb/home/research/research-centre/wealth-insights.html), retrieved 19/11/2015
5. Bilton C. (2010), *Manageable creativity*. *International Journal of Cultural Policy*, vol.16, no.3, August 2010, pp. 255-269
6. *Contemporary Art Market. The Artprice annual report 2013*. Artprice, 2013, [artprice.com, http://imgpublic.artprice.com/pdf/artprice-contemporary-2012-2013-en.pdf](http://imgpublic.artprice.com/pdf/artprice-contemporary-2012-2013-en.pdf), retrieved 19/11/2015
7. *Creative Blueprint (2012), The Creative and Cultural Industries, Visual Arts, 2011/2012*. <http://creative-blueprint.co.uk/statistics/reports/industry-statistics>, retrieved 09/09/2015
8. Eurostat (2015) *Income and living conditions*. <http://ec.europa.eu/eurostat/web/income-and-living-conditions/data/main-tables> retrieved 10/09/2015
9. Credit Suisse (2014) *Global Wealth Report*, Credit Suisse AG, Zurich <https://www.credit-suisse.com/ch/en/about-us/research/research-institute/publications.html>, retrieved 19/11/2015
10. ESSnet (2012) *ESSnet-culture European Statistical System Network on Culture, Final report*. Eurostat, ESSnet-culture, 2012, [http://ec.europa.eu/culture/library/reports/ess-net-report\\_en.pdf](http://ec.europa.eu/culture/library/reports/ess-net-report_en.pdf), retrieved 19/11/2015
11. Goldbart S., Jaffe D., DiFuria J., (2004) *Money, Wealth & Identity*. In *Psychology and consumer culture: The struggle for a good life in a materialistic world*. Washington, DC, US: American Psychological Association, xi, (pp. 189-210).
12. Goodwin J.(2008) *The International Art Markets. The essential guide for collectors and investors*. Kogan Page, London, 2008
13. Kandinsky W. (1911) *Concerning the Spiritual in art*. The Floating Press.
14. Klammer A. (1996). *The Value of Culture. On the Relationship between Economics and Arts*. Amsterdam University Press, Amsterdam
15. Knight Frank (2014) *The Wealth Report*, Knight Frank LLP, London, 2014, <http://www.knightfrank.com/wealthreport>, accessed 10/09/2015
16. Lapsa (2014) *Lapsa un Kapitāls skaita, cik Latvija miljonāru*. <http://www.lbr.lv/lapsa-un-kapitals-skaita-cik-latvija-miljonaru/> accessed on 09/09/2015
17. *Latvian Artists' Union (2015)*. [www.makslinieki.lv](http://www.makslinieki.lv), accessed on 19/11/2015
18. Moureau N., Sagot-Duvaurox D. (2012) *Four Business Models in Contemporary Art*. *International Journal of Arts Management*, Volume 14, Nr.3, p. 44-56
19. Oechsli M. (2005), *The Art of selling to the affluent*. John, Willey & sons, Inc, 2005, New Jersey & Canada
20. Pompian M.M. (2009) *Advising ultra-affluent clients and family offices*. John, Willey & sons, Inc, 2009, New Jersey & Canada
21. Princeton University (2001). *Center of Arts and Cultural Policy Studies* <https://www.princeton.edu/culturalpolicy/quickfacts/artists/artistemploy.html#traditional>, accessed on 10/02/2014
22. TEFAF (2015), *The Global Art Market, with a focus on the US and China*, The European Fine Art Federation, <http://artseconomics.com/project/tefaf-art-market-report-2015/>, accessed on 09/09/2015
23. Artprice (2011), *The Contemporary art market report 2010/2011*. Artprice, 2011, [artprice.com, http://imgpublic.artprice.com/pdf/trends2011\\_en.pdf](http://imgpublic.artprice.com/pdf/trends2011_en.pdf), accessed on 09/09/2015

24. Thornton S.(2008), *Seven Days in the Art World*. W.W.Norton&Company, Inc. New York 2008, kindle version
25. Throsby D. (2001) *Economics and Culture*, Cambridge University Press
26. Valsts Kulturkapitāla Fonds (2015) <http://www.vkkf.lv/#66>, accessed on 09/09/2015
27. WealthInsight (2013), *World City Millionaire ratings*, WealthInsight, May 2013, <http://ftalphaville.ft.com/files/2013/05/World-Cities-wealth-briefing.pdf>, accessed on 04/09/2015