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New Challenges of Economic and Business Development – 2012

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CONTENTS

Karina Adonjeva. The Role of Brand Image in Cosmetics Industry in Baltic States	9
Ieva Aizsila. Expenses of an External Audit of Financial Statements – Administrative Costs of the Entity	10
Nana Akhalaia, Nino Liparteliani. Methodological Issues of Regional Demographic Improvement	11
Isa H. Aliyev, Agha-Karim H. Hacıyev, Rahim A. Hacıyev. Peculiarities of the Stabilization Policy in Azerbaijan under the Financial Crisis	12
Madara Apsalone, Erika Šumilo. Socio-Cultural Factors and National Competitiveness	13
Elena M. Aramendia-Muneta. Understanding the Effects of Word-Of-Mouth in E-Marketing ...	14
Lilija Ābika, Ilze Āboliņa. Documentation Requirements for Various Sectors of National Economy Including Artists' Creative Activity	15
Signe Balina, Sarmite Mickevica. Competitiveness Analysis of Latvia ICT Industry	16
Ludmila Bandeviča, Guna Salputra. Regional Integration in the EU Common Market from Agribusiness Perspective	17
Daira Barānova. Effects of Economic Crisis on Employment in EU and Latvia	18
Juris Barzdins. Global Trends in Health Care and Emerging Challenges for Management	19
Anda Batraga, Didzis Rūtītis. Corporate Identity – Comparison of Product and Services Marketing Perspectives	20
Kristīne Bērziņa. Local Inhabitant and Service Staff Readiness to Assistive Cooperation towards Tourists	21
Irina Bērzkalne. Theories of Optimal Capital Structure: Assessment and Application	22
Madeleine Block, Tatiana Khvatova. Trust and Knowledge Sharing within Organisational Context	23
Britta Bolzern-Konrad. Organizational Commitment as Determining Factor for Long-Term Retention in Order to Match Industry Requirements and the Technical and Social Skill Set of Job Entrants	24
Inese Brante. Income Inequality Changes Between and Within Transition Countries	24
Hans-Jürgen Brenninger. Company Value and Employee Satisfaction: Exemplary Case Study Findings	26
Inta Brūna. Role of Eco-Indicators in Environmental Management Accounting	27
Ilze Buligina. Governance Aspects in the EU Research Policy to Support Innovation	28
Aldis Bulis, Aleksis Orlovs, Roberts Škapars. Impact of Transit Services Export on Latvian GDP	29
Katharina Buttenberg. Employer Branding: Objectives, Channels and Performance Indicators	30
Contents	3



New Challenges of Economic and Business Development – 2012

May 10 - 12, 2012, Riga, University of Latvia

Inga Būmane. Goodwill and Gain from Bargain Purchase – Theoretical Analysis of Accounting Policy	31
Mārtiņš Danusēvičs. Use of Cluster Analysis in Designation of Trade Areas	32
Mindaugas Dapkus, Jonė Kalendienė. Evaluation of Baltic Economies' Overheating: Idea of Structural Deviation	33
Justs Dimants, Biruta Sloka, Jānis Kleperis, Ilze Dimanta, Jānis Kleperis Jr., Māra Gudakovska, Pēteris Tora. Opportunities of Hydrogen Marketing – Public Opinion Analysis	34
Oleksiy Druhov, Mukola Voznyuk. The Economy Intellectualization Management: Organizational Aspect	35
Juris Dzelme, Zane Krišjāne, Ivars Linde. Direct Use of Knowledge	36
Helene Eller. The Impact of Stakeholders as Members of a Voluntary Board	37
Ib E. Eriksen, Arild Sæther. The Appearance and Disappearance of Say's Entrepreneur in Norway and the United States	38
Diana Fadejeva, Inna Romānova. Buy-And-Hold: The Paradox of Baltic Securities Market	39
Ivita Faituša. Internal Auditing in Local Governments	40
Meinhard Friedl. Impact of Electronically Substitution on Postal Operators – Austrian and EU Market	41
Xavier Galiege. Innovation And Technological Catch Up: What Should We Learn Emerging Economies From The European Experience?	42
Malcolm Gammisch. Certification of Compliance Management Systems and Compliance Personnel	43
Christiane Gaul. Psychological Aspects in International Franchising	44
Andreas Michael Giesa, Inesa Voroncuka. Determinants of Team Performance in Business Organization Empirically Researched Under Influence of Behavior – Validated in an European Environment	45
Hasan Gilani. Impact of Organizational Learning on the Corporate Brand of the Organization	46
Vladimer Glonti, Badri Gechbaia. Method of Estimation of Business Value (by Example of the Regional Insurance Companies)	47
Ludwig Gold. A Model to Link Organizational Culture Types with Strategy Implementation Factors	48
Natalia V. Gortseva, Irina I. Dobroserdova. The Financial Architecture and the Internal Capital Market in Russian Business Groups: Characteristics and Integration in the Budgeting Process	49
Ansis Grantins, Biruta Sloka, Inga Jekabsons. Municipality and Inhabitants Cooperation for Well-Being: Salaspils District Case	50
Arturs Graudins, Biruta Sloka, Inesa Vorončuka, Ilze Brante. Professional Education Establishment Optimisation: Additional Challenges for Mechanical Engineering and Metalworking Industries in Latvia	51



New Challenges of Economic and Business Development – 2012

May 10 - 12, 2012, Riga, University of Latvia

Aija Graudiņa. Global Change Impact on the Insurance Industry	52
Eduards Gross. Revenue Component of the Municipal Finance Equalization Fund – Positive Factors and Risks of Real Estate Tax	53
Ilze Gude. Open Dialogue between Institutions and Citizens: Chances and Challenges	54
Franz Haas. International Sales Processes for Industrial Goods	55
Gabriele Hahne. The Effects of the External Quality Control on the Auditor Market in Germany, Latvia and Austria	56
Karl-Ludwig Hahne. The Impact of Data Protection Measures on Small and Medium-Sized Enterprises	57
Sandra Heiden. Hotel-Customers' Decision-Making: Influence of Guest Segmentation and Targeted Communication	58
Christopher Hoeckel. The Impact of Personality Traits and Behavioral Patterns on the Efficiency Outcomes of Business Management Decision Making	59
Ksenija Ijevļeva. Information Sources Influencing the Consumers' Decision of Home Loan Obtaining	60
Larisa A. Ilyina. Deformation of a Salary and Compensation of Expenses of Labour in the Industry in Terms of Reforming	61
Norman Jablonski. Differences in the Buying Behaviour of Closed Funds between German and Austrian Investors and Implementation of Improvement Measures – Presentation of Country Differences	62
Ināra Kantāne, Biruta Sloka, Ilona Ozoliņa. Assessing Motivation for Small Business Development	63
Jochen Katz. Trust Marketing: A New Marketing Framework to Increase Sales Process Throughput for High-Risk Products	64
Lūcija Kavale. Efficient Division of Tax Revenues among Budgets	65
Laura Kersule, Biruta Sloka, Iluta Skruzkalne. Role of Personnel Motivation Policy for Employees' Productivity of Big Company	66
Vladimir G. Khalin, Galina V. Chernova. Educational Crediting in Modern-Day Russia: Concept and Problems	67
Christoph Kisker. Social Media Marketing for Startups	68
Kirils Kondratovs. Asymmetric Shocks' Impact on Latvian Banking System Financial Stability	69
Marina Kudinska. Analysis of Financial Leverage in Commercial Banks of Baltic Countries	70
Carolin Kuhn. Innovation Power and Values-Based Management	71
Natalia P. Kuznetsova, Zhanna V. Pisarenko. Insurance Activities Governance: World Experience Implementation	72
Arnis Lagzdīņš. Compliance Risk Oversight: Organizational Challenges for Banking Boards in Latvia	73
Lakhtionova Liudmyla. Analysis of Financial Stability of Companies in Conditions of	



New Challenges of Economic and Business Development – 2012

May 10 - 12, 2012, Riga, University of Latvia

Globalization of Economy	74
Irina Lando. Practical Use of Innovative Methods of Instruction for Personnel Training from the Point of View of Human Capital Development in Organisations	75
Moritz Lang. Empirical Analysis of the Influence of Regulatory Circumstances on Product Lifecycle Management Options for the Pharmaceutical Industry in Germany	76
Mariya Lebedeva. Investment Decisions in Emerging Markets from Behavioural Theory's Point of View	77
Elina Lice. Consumption Behavior in Families with Young Children in Latvia	78
Marija Lindemane. Estimating Potential in Export of Financial Services	79
Knut Linke. A Structural Approach for Online Surveys – Validate, Motivate and Provide Trust	80
Agnese Līgotne. Investigation of the Opportunities of Study Programme Quality Assessment	81
Tatiana Maidan. Development Finance Institutions: Role in Russian Economics Modernization	82
Anton Mandl. Side Effects of Corporate Culture in Technical Services Firms on the Employee Typology	83
Guillermo Maraver-Tarifa, Angeles Muñoz-Fernandez, Rocio Llamas-Sanchez. An Integrative Model of the Innovation Process in Public Organizations	84
Andrea Mewaldt. Vocational Educational Training (VET) in Emerging Markets. The Market-Oriented and Innovative Approach to Internationalization of Educational Services ...	85
Maria Minichmayr. Decision Efficiency in Employee Selection Processes in Regard to Happiness	86
Sandrina B. Moreira, Nuno Crespo. Development Economics – From the Traditional Approaches to the New Concepts	87
Sandrina B. Moreira, Nádía Simões, Nuno Crespo. Composite Indicators of Development – The Importance of the Weights	88
Hans-Peter Oehl. Systematization of Life Cycle Approaches	89
Alda Ozola. Factors Influencing Public Participation in Environmental Governance: Key Conclusions from Desk Research and Assessment of Situation in Latvia	90
Elena Ozola, Andris Ozols. Knowledge Sharing and Organizational Learning as Factors of Organization Effectiveness: Social Psychological Approach	91
Rita Ozolina. Material Stratification in Different Types of Households	92
Andris Ozols, Jānis Eglītis, Elena Ozola. Triple Helix Model of Innovative Development: Role of Local Governments in Latvian Regions	93
Tiiu Paas. Regional Development and Convergence: Are Innovations Supporting These Processes? .	94
Evandzelina Petukiene, Milda Damkuviena. Management of Clients' Participation in the Coproduction of Public Services: The Selection of Clients	95
Reimar Pfulz-Liebert. Risk-Ratios and Their Relevance for Financing Real Estates	96



New Challenges of Economic and Business Development – 2012

May 10 - 12, 2012, Riga, University of Latvia

Zhanna V. Pisarenko. Microinsurance – Challenges for Russian Insurance Market	97
Dmitry Podolyanets. Budgeting: Transition from Principles of the General Planning to Planning of Personal Responsibility for Results of Activity	98
Lada A. Podolyanets. The Depository Policy of the Russian Banks	99
Katharina Priesner. Dual-Career Support	100
Ilze Prūse. The Future of the EU ETS and It's Participants Knowledge about It in Latvia ...	101
Maris Pukis, Inara Dundure. Sustainability of Pension System	102
Maris Purgailis, Kristīne Zaksa. The Student Loyalty as a Part of Higher Education Organization's Intellectual Capital	103
Emīls Pūlmanis, Silvija Bruņa. Project Cost-Benefit Analysis: An Improvement to Construction Project Management Process	104
Michael Pütter. Social Commerce – Study in Social Media and E-Commerce for the Disposal of Strategic Approaches to Optimize Customer Loyalty	105
Stephen Rainey, Philippe Goujon. Ethical Challenges of Economic and Business Development .	106
Beāte Ramaņa, Biruta Sloka, Alina Gržibovska. Foreign Students at University of Latvia – Important Part of the University	107
Peter J. A. Reusch. Project Management Supported by Object Role Modelling	108
Inna Romānova. Leverage Dynamics and the Macroeconomic Conditions	109
Ramona Rupeika-Apoga. Latvia's Banking Sector in the Changing Environment	110
Alen Sacek. The Aspects of Merger Syndrome in M&A Transactions	111
Svetlana Saksonova. Active Employment Activity's Influence on Latvian State and Municipalities' Budget during Years 2009 – 2011 – Research Results	112
Günter Salchner. Governance and Innovative Tourism Development	113
James Samuel. The Application of IAS for Developing Businesses, Especially in the EU ...	114
Tom Sander. Why Individuals Take Part in Social Media Activities?	115
Henrique Schneider. A Hayekian View on the Middle Income Trap	116
Stefan Schwerd. The Impact of Electronic Communication within Organizations' Media on Managerial Leadership Behaviour	117
Valentina Simkhovich. Demands for Improving Management Education in Belarus	118
Lilīta Seimuškāne. Citizen Participation Self-Assessment Options in Local Governments ..	119
Irina Solovjova, Ramona Rupeika-Apoga. The Crisis Impact on International Rating Agencies: New Tendencies and Problems	120
Florian Spiegel. Decisions under Uncertainty: The Influence of Fear on the Investment Decision	121
Sergejs Stacenko. European Industrial Relations: Collective Bargaining in the EU and EU Member States	122
Christoph Staita. Coherent Team Structure in a Three-Dimensional CAD New Product Development (NewPD) Environment	123



New Challenges of Economic and Business Development – 2012

May 10 - 12, 2012, Riga, University of Latvia

Alexander Stelzer. Critical Factors of Supply Chain Management and Strategies in the Food Industries – Development of a Decision Support System for Strategic Management of Agricultural Raw Material Culture	124
Tatjana Sudova. Human Capital and Sustainable Development	125
Ruta Šneidere. The Analysis of Theoretical Approaches for Calculating Various Financial Ratios	126
Ilmārs Šņucins. Role and Efficiency of Personal Income Tax Reliefs in Promoting Social and Employment Goals in Latvia	127
Marion Tenge. Social Software Platforms as Motor of Operational Airport Efficiency? – A Conceptual Framework	128
Ilja Teterko. Natural Gas Price Formation and It Prediction in Latvia Using Fundamental and Technical Analysis	129
Alekss Tiltiņš. The Combination of Special Economic Zones and Defence Industrial Clusters within the Framework of Defence Economy	130
Maria Tissen, Ruta Šneidere. The Development and Formation of Financial Science in a World Context	131
Michael Toedt. A Marketing Optimization Model for CRM Activities	132
Boldizsár Tóth. Developing an Employee Satisfaction Survey for the Hungarian SME Sector: Implementation of the Existing Theories	133
Michael Trestl. The Impact of Growth on Distribution and Innovation in the Airline Industry ...	134
Juris Ulmanis. ICT Adoption Model – Applicability to Crisis Period	135
Irena Vaivode. Innovation and Productivity	136
Iveta Vanaga. Challenges and Problems of Tourism Statistics in Latvia	137
Klaus Venus. Supply Chain Management – Part of Strategic Management	138
Renate Vidruska. Dynamic Pricing Online: Evidence from Latvia	139
Ilze Vilka. Theoretical Aspects of Local Economic Development in Rural Areas: A Literature Review	140
Katri Vintiša. Challenges of Pay System Development in Public Sector: Case of Latvia	141
Alise Vītola, Maija Šenfelde. Social Dimension of Institutions	142
Sergejs Volvenkins. Methodology for Print Advertisement Quality Assessment	143
Claudia van der Vorst. Approach for Selecting ERP Software at Mid-Size Companies Reflecting Critical Success Factors	144
Barbara Wagner. Impacts of Leadership Behaviour on Subordinate Motivation	145
Jens Wingefeld. The Role of New Passive Investment Tools within the Modern Portfolio Management Process	146
Manuel Woschank. The Impact of Increased Efficiency in Logistics Planning Operations on Logistics Performance	147



THE ROLE OF BRAND IMAGE IN COSMETICS INDUSTRY IN BALTIC STATES

Karina Adonjeva

Faculty of Economics and Management

University of Latvia

Aspazijas bulv. 5, Riga, LV-1050, Latvia

E-mail: karina.adonjeva@gmail.com

Keywords: brand image, cosmetics industry, customer loyalty.

As the current economic environment becomes more competitive and introducing new brands becomes increasingly costly, companies must find new strategies to increase their capacity and competitiveness. In order to win the leader position in the marketplace marketing specialists work out different kind of strategies to achieve long lasting success. One of the most significant among these strategies is customer loyalty toward the brand. To achieve customer loyalty marketers should focus on brand image attributes and benefits in their efforts. By maintaining and strengthening the brand image and values, it will position the brand positively in the minds of consumers.

Brand image comprises a consumer's knowledge and beliefs about the brand's diverse products and its non-product attribute. Brand image represents the personal symbolism that consumers associate with the brand, which comprises of all the descriptive and evaluative brand-related information. When consumers have a favorable brand image, the brand's messages have a stronger influence in comparison to competitor brand messages. Therefore, brand image is an important determinant of a buyer's behavior. Based on the brand image and the principle that identity is the source of brand positioning that can be used to attack a market with a view to growing market share at the expense of the competition.

It is very important for any business organization to evaluate their consumer's perception towards the image of their brand or services offered. Measuring brand image based on consumer's perceptions helps a company to identify the strengths and/or diagnose the weaknesses of their company image, company's product or brand image and its position in the market. It is also important to understand that a brand has many images which are generally in the form of brand attributes and/or brand benefits.

The primary purpose of this article is to illustrate the role of brand image in cosmetics industry, to summarize information from different studies and to describe the role of brand image in cosmetics industry. To analyse consumer's perceptions of these image attributes and benefits as it's a strategic way to identify the strength of a brand's quality and the meaning that consumers associate with the brand.



EXPENSES OF AN EXTERNAL AUDIT OF FINANCIAL STATEMENTS – ADMINISTRATIVE COSTS OF THE ENTITY

Mg.oec. Ieva Aizsila

Faculty of Economics and Management

University of Latvia

Aspazijas bulv. 5, Riga, LV-1050, Latvia

Phone +371 29 14 54 84

E-mail: aizsila@hotmail.com

Keywords: Administrative costs; External audit; International auditing standards; Effective functioning; Latvia; Small and Medium-sized enterprises

Usually the objective of an external audit of financial statements is to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. The audit needs to give a true and fair view of the annual financial report of the enterprise.

The understanding, need, use of information and audit report; responsibility, objectives and expenses of an external audit for Small and Medium-sized enterprises in the Republic of Latvia.

An external audit is understood as the activity done by certified auditor and consisting of analysis and revision of the financial state of the entity that correspond to the legalization of the state needs an external audit and auditor report of annual financial report.

The expenses of an audit is annual administrative costs that needs to be consider as a favour and essential costs for a company. The need and costs of an external audit should to be planed and calculated annually.

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

The use common and practical use of International audit standards, the financial reporting reliability, the ability to use understandable the report to investors, creditors, financial statement users, owners of Small and Medium-sized enterprises, society as a whole, the options of audit companies to make the audit in existing financial market regulation in the Republic of Latvia.

The effective functioning, analysis and return of an external audit for a Normal and Small; Medium-size enterprises in the Republic of Latvia of year 2011.



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METHODOLOGICAL ISSUES OF REGIONAL DEMOGRAPHIC IMPROVEMENT

PhD in Economics, Associate Professor Nana Akhalaia
University of Gori, Georgia
Phone: 598548691
E-mail: akhalaia.n@gmail.com

PhD in Economics, Professor Nino Liparteliani
University of Gori, Georgia
Phone: 599568344
E-mail: nliparteliani69@gmail.com

Keywords: Number of population of region, Full value Demographic Analysis, Demo-statistic description of demographic processes, Region – independent object of demographic research, Reliability criteria of demographic researches, Reliability age coefficient of death

I will try to answer such kind of posed question: how many residences should be living in the given region that the demo-statistical description of current demographic processes in it gives us full value, reliable data-results about statistical study of population or to say with other words the region should be presented independent object of demographic research? [1]

We cannot begin proving that the question has not been posed so yet. This question exists itself with any quantitative analysis. But the question in demography if what criterion we should define enough-adoption of a number of region population for demographic analysis has not been still posed and has not been answered yet. How much this population is: 50, 100, 150, 200, 500, 600, 700 or more thousand? [2]

To solve the raised problem, we should firstly answer the question: what does full-featured demographic analysis mean.

That's why we should take the existence mean of death-rate reliable age coefficients calculation as the reliability criterion of regional demographic research. [3] If the totality of region population gives the mean of calculation such death-rate age coefficients, it's obvious that to receive the reliable birth-rate age coefficients does not bring doubt. In such situation we can calculate the complete system of population statistical study data: general and age coefficients, sum data of birth-rate, gross and net coefficients of population statistical study, mortality schedules, and on their base will be done the prognostic calculations and etc.

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PECULIARITIES OF THE STABILIZATION POLICY IN AZERBAIJAN UNDER THE FINANCIAL CRISIS

Isa H. Aliyev, Agha-Karim H. Hacıyev, Rahim A. Hacıyev

Institute of Economics

Azerbaijan Academy of Sciences, Baku, Azerbaijan

Phone: +994 050 211 82 88

E-mails: a.h.hacıyev@gmail.com, Rahim.hacıyev@gmail.com

Keywords: monetary policy, state budget, stabilization policy

General characteristic of Azerbaijani economy is its high sensitiveness to external shocks. This is mostly due to high share of oil and gas sector in the economy, which reached at different times approximately 55-60% of GDP [1]. In this connection the dynamics of energy resources prices in the world market is the main channel of impact of the financial crisis on economic situation in the country.

As in many countries with developing financial markets and specific structural characteristics of the economy, exchange rate of Azerbaijan manat to USD dollar is an important “nominal anchor” for ensuring the macroeconomic stability. In other words, among all possible interim monetary indices manat’s exchange rate is the most under control and predictable orientator for achieving ultimate aims of monetary policy – stabilization of price and financial system.

As a whole it is considered that in the capacity of a conductor for the monetary and fiscal policy one of the following indices could be chosen – the exchange rate, money supply and the interest rate. It is not possible to target all those three indices at the same time. Fixation of exchange rate in this case does not allow the central bank to operate with interest rate. Besides, according to the Mundell-Fleming model, on transition to the system of floating exchange rates under conditions of high mobility of international capital flows the effectiveness of fiscal policy as a macroeconomic regulator decreases considerably. In that case fiscal and monetary policy becomes the most effective tool of influencing the level of production and employment in the economy.

With intensification and complication of the capital market the demand for money becomes unstable and the interest rate comes out as a main orientator for the participants of economy.

The article analyses the peculiarities of the stabilization policy in Azerbaijan.

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SOCIO-CULTURAL FACTORS AND NATIONAL COMPETITIVENESS

Madara Apsalone

University of Latvia

Aspazijas bulv. 5, Riga, LV-1050, Latvia

E-mail: madara.apsalone@gmail.com

Dr.oec., Professor Erika Šumilo

University of Latvia

Aspazijas bulv. 5, Riga, LV-1050, Latvia

E-mail: erika.sumilo@lu.lv

Keywords: socio-cultural factors, national competitiveness, economic development

Socio-cultural factors – shared values, norms and attitudes are significant, but less acknowledged sources of national competitiveness. Previous studies have found socio-cultural factors positively affecting various aspects of national competitiveness – export capacity, entrepreneurship, innovation, productivity and international cooperation. These factors are more sustainable and, in comparison with the traditional factors, less affected by external environment changes. Socio-cultural factors provide countries an opportunity to develop competitiveness strategies based on their unique advantages.

This research aims to explore the impact of socio-cultural factors on national competitiveness in small, open economies. Analyzing relationship between 400 socio-cultural indicators and competitiveness indicators such as productivity, economic development, business and government efficiency, innovation capacity and infrastructure in 37 countries, six socio-cultural factors have emerged: *collectivism and hierarchy; future, cooperation and performance orientation, self-expression, monochronism and rationality, economic orientation and social structure*. The first factor – *collectivism and hierarchy* – tends to reduce the national competitiveness; the other five affect it positively.

We develop two models to explain the impact of the aforementioned six factors on national competitiveness. We find that socio-cultural factors explain 83 percent of the variation of the Global Competitiveness Index developed by the World Economic Forum and 77 percent of the variation of the World Competitiveness Index developed by the IMD Business School. We further explore four countries – Denmark, Chile, Singapore and Switzerland, analyzing their socio-cultural factors of differentiation that help to secure highly competitive economies.



UNDERSTANDING THE EFFECTS OF WORD-OF-MOUTH IN E-MARKETING

Elena M. Aramendia-Muneta

Universidad Pública de Navarra

Campus Arrosadía, 31006 Pamplona, Spain

Phone: +34 948 169 373, fax: +34 948 169 404

E-mail: elena.aramendia@unavarra.es

Keywords: e-WOF, word of mouth, e-marketing, online marketing

The purpose of this paper is to present the diffusion of word of mouth into online marketing.

Electronic Word of Mouth (eWOM) communication is one of the mainstays of the present industry, because it attracts new customers and it is also an indicator of how satisfactory the services provided are (Godes & Mayzlin, 2004). Goldsmith and Horowitz (2006) highlighted that eWOM has far reaching effects on sales of a wide range of goods and services. Consumers' information is more valuable than advertising and eWOM is ranked as one of the most important information sources for customers in their purchase choice. eWOM should be viewed as a potentially cost-effective means for industry, due to the fact that this sector is selling intangible products (Litvin et al., 2008).

All the theoretical explanations on E-WOF in online marketing mentioned in this chapter will be coupled with a very useful tool, the so-called Concept Maps (CM). According to Navak and Cañas (2008) concept maps "are graphical tools for organizing and representing knowledge." CM are an enormously useful tool to organize information and to provide new insights into that same information. It is also widely considered as an educational and counseling tool to analyze cognitive structure (Novak & Gowin, 1984). Although Concept Maps have proved their value in carrying out marketing research (Joiner, 1998), they have been used very little.

The aim of this paper is to present all innovation in E-WOM thought CM in order to help any company.

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**DOCUMENTATION REQUIREMENTS FOR VARIOUS
SECTORS OF NATIONAL ECONOMY INCLUDING
ARTISTS' CREATIVE ACTIVITY**

Lilija Ābika

University of Latvia

Aspazijas bulv. 5, Riga, LV-1050, Latvia

E-mail: lilija.abika@tvnet.lv

Ilze Āboliņa

University of Latvia

Aspazijas bulv. 5, Riga, LV-1050, Latvia

E-mail: ilze.abolina@lu.lv

Keywords: economic activity, personal income tax, value added tax

On the basis of a sociological study, which consisted of a survey and artists' comments, the author concludes that in Latvia the number of artists who can live from their artistic earnings is comparatively small. Besides, there is a complicated legal framework in the area of single-entry bookkeeping in Latvia, and, as revealed by a number of surveys, artists' knowledge of the system of regulatory enactments as a rule is insufficient. These circumstances should be regarded as significant obstacles for undertaking business activity. In the author's opinion, these factors have a major impact on the Latvian economy.

One of the factors hindering artists' economic activity is income tax rate of 25%. By setting this rate, the legislator reasonably aims at making artists to have their economic activity registered. Another hindering factor is the value added tax rate up to 22% since it is applied to income from selling works of art with regard to artists who have registered their economic activity. There is an income that is not subject to value added tax with regard to those artists, who have not registered their economic activity, but receive author's fees. This is according to an agreement reached between the European Commission and Latvia. At the same time, the 6th Directive of the European Union stipulates that author's fees are subject to value added tax.



New Challenges of Economic and Business Development – 2012

May 10 - 12, 2012, Riga, University of Latvia

COMPETITIVENESS ANALYSIS OF LATVIA ICT INDUSTRY

*Ph. D., Associate Professor **Signe Balina***

Faculty of Economics and Management

University of Latvia, Riga

Aspazijas bulv. 5, Riga, LV-1050, Latvia

Phone: +371 29252365

E-mail: signe.balina@lu.lv

*Doctoral student **Sarmite Mickevica***

Faculty of Economics and Management

University of Latvia

Bīķernieku iela 124/2 - 1, Riga, LV-1079, Latvia

Phone: +371 29493944

E-mail: sarmite@esm.lv

Keywords: ICT industry of Latvia, industry analysis, competitiveness

In the light of recent economic and financial crisis questions about organization and industry competitiveness are raised again. Latvian ICT industry is often mentioned as one of industries with highest potential of Latvia and seen as one of future foundations of country economy. However there have been very few researches done about industry competitive position in the country, as well as research about future development forecasts in extended manner from strategic forces and resource based view perspectives.

The aim of this paper is to analyze Latvian ICT industry competitiveness by Porter five forces model (buyers, suppliers, competitors, substitutes, and potential entrants) and by resource based view models. Research will give recommendations for strategy developments for individual organizations and for industry.

Research will include literature review, exploratory interviews with experts of Latvian ICT industry, quantitative analysis, logical analysis and generalization.

This research will contribute to organizations, which are taking strategic decisions about entering ICT industry of Latvia and will help to shape strategies for current ICT industry players in Latvia. This research could be used by governmental institutions developing economic strategies of Latvia.



REGIONAL INTEGRATION IN THE EU COMMON MARKET FROM AGRIBUSINESS PERSPECTIVE

Ludmila Bandeviča

University of Latvia

Aspazijas bulv. 5, Riga, LV-1050, Latvia

Phone: +371 67034754

E-mail: ludmila.bandevica@lu.lv

Guna Salputra

Latvian State Institute of Agrarian Economics

Strukturoru iela 14, Riga, LV-1039, Latvia

Phone: +37126529769

E-mail: guna@lvaei.lv

Keywords: regional integration, common market, common agricultural policy, agribusiness

The process of regional integration of different groups of countries in the European Union (EU) common market have stressed an interdependence of economic and political issues as since the EU enlargement in 2004 and 2007 the concept of Old Member States (OMS) and New Member States (NMS) is still outstanding. The primarily considered for the overall EU positive economic effect from free trade in agribusiness left the market effects generated by common agricultural policy (CAP) not sufficiently assessed. The level of direct support has an impact on competitiveness and make a strong further consequences how countries can position themselves in EU common market. According to Balassa [1] the economic integration can take five forms that represent increasing degrees of integration. Estrada [2] propose a multi-dimensional regional integration evaluation (RIE) methodology. The central idea behind the RIE methodology is that regional development promotes regional integration. Lombaerde and Langenhove [3] have proposed the methodology for System of indicators of regional integration (SIRI) with the particular attention to the translation of the chosen variables into indicators, the structuring of variables and analysing them. The hypothesis, that different level of productivity combined with the different CAP conditions for OMS and NMS hinder the regional integration process in the EU common market, can be approved by theoretical and empirical evaluation. The empirical analysis of support, productivity and trade variables show the asymmetries in both – policy and economic trends related to agribusiness.

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**EFFECTS OF ECONOMIC CRISIS ON EMPLOYMENT
IN EU AND LATVIA**

Daira Barānova

Faculty of Economics and Management

University of Latvia

Aspazijas bulv. 5, Riga, LV-1050, Latvia

E-mail: daira.baranova@lu.lv

Keywords: employment, employment policy, unemployment

The paper highlights facts of labour market adjustment by analyzing developments on the aggregate level and in EU member states. Indicators of employment and unemployment and losses in employment of the 2008 – 2009 recession have been analyzed due to changes in economic activity in EU and Latvia. Effects of economic crisis on labour market situation in Latvia have been discussed. Main tasks to foster employment and preconditions to achieve them in Latvia are object of the paper. Tendencies of labour market in Latvia have been compared with other EU countries. Evaluation of employment policy and improvement and diversification of the active labour market policy measures and other factor changes in employment and unemployment have been characterized in the paper.



New Challenges of Economic and Business Development – 2012

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GLOBAL TRENDS IN HEALTH CARE AND EMERGING CHALLENGES FOR MANAGEMENT

Juris Barzdins

Faculty of Economics and Management

University of Latvia

Aspazijas bulv. 5, Riga, LV-1050, Latvia

E-mail: juris.barzdins@gmail.com

Keywords: health care management, organizational-professional conflict, professional values, medical education curricula

The aim of this presentation is to highlight management challenges in health care organizations in the context of overall trends in health sector and review thematic literature regarding new competencies needed both for managers and medical professionals to guaranty qualitative and affordable health services. Several medical graduate study programs from different countries are analyzed to determine possibility for junior doctor to gain systemic organizational, management and leadership competencies.

The increase of health expenditure in most of middle and high income countries exceeds GDP growth rate and threatens further competitive capacity of economies tight in bearing the burden of social costs. Several factors are mentioned to cause the rise of health care costs, some of them, (e.g. aging, unhealthy lifestyles of individuals), are out of the sphere of direct influence of doctors, managers of health care organizations and even ministries of health, however other causes (e.g. evaluation of introducing new costly technologies, organization of care processes) are in their direct domain. If the economy growth slowdown, governments are not anymore capable to generate enough public resources to cover rising costs of health care, household's out-of-pocket spending increases. It further leads to inequality in receiving health care, decrease of health status of poor and general dissatisfaction with government's ability to guaranty fundamental rights. Increasing demand from society and governments to control health care costs and quality are obvious. In this situation one of the major challenges for both managers of health care organizations and medical doctors is organizational – professional value conflict. While manager's responsibility for the whole organization is related to preoccupation with systems, the allocation of resources, emphasis on population and need for public accountability, doctor's responsibility to individual patients, historically is related to professional autonomy and high desire for self regulation. The management of health care systems has always sought dual competence – the knowledge of medical processes and knowledge of finance, economy and management. Traditionally, the hospitals are managed by doctors, but increasingly the management is left to professionals without medical training. Doctor-manager benefits from potentially higher authority among other doctors and medical knowledge, however usually he lacks profound knowledge of finance, economics and management. Professional non-doctor manager usually has a better knowledge management, experience from other businesses and has a broader customer-oriented vision for company; however he often has limitations in achieving authority among doctors and therefore limited capacity to implement the necessary changes in the company. Today dual competences are needed for practicing doctors too as they face increasing requirement for organizational and social accountability, and expectations to lead or at least accept necessary changes in organizations.

In order to evaluate current practice of graduate medical education, five different study programs from universities in Latvia, Lithuania, Norway, UK and USA were compared regarding provided courses for acquiring systemic organizational, management and leadership competencies. Content analysis of study programs showed high variability of both amount and scope of training for systemic competencies. The author suggests further research to prove hypothesis that integration of adopted MBA-like education curricula training for graduate studies will add necessary systemic view and interprofessional competencies to all tomorrow's doctors and will support development of leadership of tomorrow's health care managers.



CORPORATE IDENTITY – COMPARISON OF PRODUCT AND SERVICES MARKETING PERSPECTIVES

Anda Batraga

University of Latvia,

Aspazijas bulv. 5, Riga, LV-1050, Latvia

Phone: +3717034612

E-mail: anda.batraga@lu.lv

Didzis Rūtiņis

Johnson & Johnson AB Latvia

Bauskas iela 58a, LV-1004, Riga, Latvia

E-mail: didzizr@gmail.com

Keywords: corporate identity, product marketing, services marketing, brand management

Corporate identity concept was first used in 1970s and from that time the concept has been developed and interpreted within various marketing frameworks. However, there has not been developed yet a single framework to define corporate identity components or components from product and services marketing perspectives and highlight respective similarities and differences, if any. Also, it is common for marketing professionals use corporate identity and brand concepts interchangeably while from theoretical perspective these two terms represent two different marketing concepts.

Hypothesis: there exist differences between corporate identity formation in manufacturing and service providing companies and correspondingly they can be evaluated using product and services marketing approaches.

People are key corporate identity element in service companies.

Aim of the research: to explore similarities and differences of the corporate identity concept from product and services.

Tasks of the research:

1. Review corporate identity models for manufacturing and service providing companies.
2. Compare product and services marketing perspectives on corporate identity concept.
3. Highlight key differences between corporate identity and brand concepts.



**LOCAL INHABITANT AND SERVICE STAFF READINESS
TO ASSISTIVE COOPERATION TOWARDS TOURISTS**

Kristīne Bērziņa

University of Latvia

Raiņa bulv. 19, Riga, LV-1586, Latvia

E-mail Kristine.berzina@lu.lv

Keywords: tourism, cooperation, attitude

Local inhabitant readiness to cooperate assisting tourists is part of competitive advantage of tourism destination that is indicated as new affinity parameter in international Travel and Tourism Competitiveness Report. List of secondary data indicates current situation in local inhabitant attitude - analysing international tourist satisfaction level in Latvia we can see that 2/3 of tourists are evaluating it as good, but the Travel and Tourism Competitiveness Report 2011 indicates attitude of population towards foreign visitors for destination Latvia as number 130 out of 139 countries worldwide. In order to investigate local inhabitant and service staff attitude and readiness to cooperate and assist tourists qualitative research methods are used to observe responsiveness, communication, courtesy and other attributes of two investigated groups of inhabitants and service staff. Recommendations are directed towards enterprises in tourism areas and tourism related NGOs.



New Challenges of Economic and Business Development – 2012

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THEORIES OF OPTIMAL CAPITAL STRUCTURE: ASSESSMENT AND APPLICATION

Doctoral student Irina Bērzkalne

University of Latvia

Phone: +371 29992532

E-mail: irina_berzkalne7@inbox.lv

Keywords: optimal capital structure, trade-off theory, pecking order theory, market timing theory, agency theory

Enterprise financing is one of the most studied topics in corporate finance, because an accurately estimated and selected equity and debt ratio can maximize the enterprise value and minimize the price of capital. In recent decades several theories have been defined in corporate finance that determines the principles according to which enterprises choose their capital structure. In a sense each of these theories concentrates on one or several factors that influence the capital structure, taking other conditions as constant. Although compliance tests have been made in various countries and various industries there are still many unanswered questions and problems.

In the paper will be reviewed several optimal capital structure theories, each of them has its supporters and critics, however none of them has established itself as a distinct leader: trade-off theory, pecking order theory, market timing theory, agency theory, free cash flow theory etc.

The **purpose of the paper** is to analyse and assess the theories of optimal capital structure, as well as to evaluate their implementation and application possibilities in Latvian enterprises.

There is a reason to state that the capital structure trade-off theory and pecking order theory are more likely to be observed in the big enterprises of the industry. The key idea of the trade-off theory is the trade-off between the tax advantage and financial distress costs. Consequently the effect of tax advantage will be more felt in big enterprises with big debts and interest payments. There is a similar situation with the pecking order theory the main concept of which is based on the information asymmetry (that could be more expressed in big enterprises) and the cost of various kinds of raising capital – big enterprises have more possibilities and wider choice in raising funding if compared to small and microenterprises.



New Challenges of Economic and Business Development – 2012

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TRUST AND KNOWLEDGE SHARING WITHIN ORGANISATIONAL CONTEXT

Madeleine Block

University of Technology

Business and Design, Wismar, Germany

University of Eastern Finland, Kuopio, Finland

Phone: +7960 268 2311

E-mail: madeleineblock@gmx.net

Tatiana Khvatova

Saint Petersburg State Polytechnical University, Saint Petersburg, Russia

Phone: +7921 748 5618

E-mail: tatiana-khvatova@mail.ru

Keywords: knowledge sharing, organisation, trust, costs

Nowadays in many organisations knowledge is viewed as a crucial strategic factor in gaining competitive advantage. In this article, the focus lies on the process of knowledge sharing as part of creating new knowledge in organisations. Knowledge sharing is determined to a large extent as social interaction between individuals and groups. Therefore, the concept of trust cannot be neglected in the knowledge sharing research. This article investigates into the concept of trust from the theoretical point of view to develop an understanding what kind of role trust plays in the process of knowledge sharing. This paper begins with discussion of the term trust from different authors' perspectives such as M. Deutsch, N. Luhmann and T. Rippberger and classification of trust in the knowledge sharing process. Then, it examines the question whether trust is a prerequisite or a result of social interaction and further of knowledge sharing. Furthermore, we discuss existing thresholds of trust versus mistrust, and the concept of risk referring to the potential for giving benefit without receiving something similar valued in return. The exploration of the concept of trust is further linked with the transaction cost approach introduced by O. Williamson. We argue that trust should be considered as an environmental factor of intra-organisational knowledge sharing together with human and social factor. Finally, reciprocal effects of trust on costs and voluntary participation of the actors in knowledge sharing process are clarified.



**ORGANIZATIONAL COMMITMENT AS DETERMINING
FACTOR FOR LONG-TERM RETENTION IN ORDER TO MATCH
INDUSTRY REQUIREMENTS AND THE TECHNICAL
AND SOCIAL SKILL SET OF JOB ENTRANTS**

Britta Bolzern-Konrad

University of Latvia, University of Applied Science Kufstein

Reisererweg 9, 83064 Raubling, Germany

Phones: +49-8035-9638997, +49 1729717376

E-mail: bbolzern@yahoo.de

Keywords: Commitment, Value Fit, Long term retention, Person-Organization Fit

In order to identify critical success factors leading to a better match between industry needs and the competence spectrum provided by the educational schemes and the society for the whole process from selection and long term retention several influencing factors have to be analyzed and evaluated in its relation to each other. With the goal to choose the right people for the right company, to release synergies in a most efficient way, to bind people and company on the long run and let people develop in a way that they are part of the face and living strategy of the company it needs to be explicit: What are the company requirements in terms of strategy, process, organization, qualification and what is the right environment for job starters with a specific education background for an efficient integration into the company?

Employees who experience a strong Person-Organization fit in terms of value congruence are more likely to offer a long-term commitment [1]. The optimized fit of requirements, skills and values triggers that the employee sees himself as a part of the company and feels satisfied and committed. "All people look for enjoyment and seek to reach goals that actualize talents, skills and interests" (Holland, 1977, p. 12). Organizational commitment is viewed as an attitude involving employee loyalty to the organization, with those individuals who are committed being willing to contribute something of themselves to their organizations (Angle and Perry 1981; Cook, Hepworth, Wall, and Warr, 1981; Morris and Sherman, 1981; Porter and Smith, 1970). (Smith & Hoy, 1992) [2]. Commitment means loyalty, affiliation, identification, that people feel towards a specific relationship target. It is differentiated between organizational, emotional and 3 dimensional (affective, rational, normative) commitment (Six, J., R., & C., 2001) [3].

The questions of this paper are: How is commitment determined? Determining factors and bounding dimensions will be outlined. How are these determining factors being affected by a rapidly changing environment and organization? How can these factors be positioned in the complex of the determining factors for long term retention?

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INCOME INEQUALITY CHANGES BETWEEN AND WITHIN TRANSITION COUNTRIES

Inese Brante

Faculty of Economics and Management

University of Latvia

Aspazijas bulv. 5, Riga, LV-1050, Latvia

Phone: +371 26179999

E-mail: Inese.Brante@lu.lv

Keywords: income inequality, transition countries, globalization

Income inequality is complicated and very conflicting phenomenon of socio-economics. Relative equalization of incomes is one of the conditions that create equal opportunities for all European Union countries that ensure even and stable economic growth of the European Union as a whole.

The article examines the income inequality changes between and within selected transition countries over the last decade (2000-2010) – the time of globalization expansion especially for transition economies. The analysis covers ten European Union transition countries: Bulgaria, Romania, Lithuania, Latvia, Slovenia, Poland, Czech Republic, Hungary, Slovakia and Estonia.

The economists suggest that mostly countries benefit from globalization expansion but on condition that countries are ready for changes and they actively participate in globalization process. At the same time for poorer countries it is more difficult to use the opportunities created by globalization. Mostly it derives from possibilities of countries to attract investments.

The findings show that income distribution has deteriorated in many transition countries over the last decade. Income inequality has risen to greater or lesser extent in six countries and just in three countries has fallen. The number of cases was observed when the rapid economic growth improved well-being of population in transition countries. However the distribution of countries by income is quite stable and transition countries still cannot reach the level of advanced European Union countries. It means a slow convergence of income distribution.



New Challenges of Economic and Business Development – 2012

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COMPANY VALUE AND EMPLOYEE SATISFACTION: EXEMPLARY CASE STUDY FINDINGS

*Doctorate student **Hans-Jürgen Brenninger***

University of Latvia

Brenninger GmbH, Dachsteinstraße 13, 83395 Freilassing, Germany

Phone: +49 162 1001001

E-mail: hans-juergen.brenninger@t-online.de

Keywords: Employee satisfaction, customer value, company value, Great Place to Work

Numerous studies and authors support the idea that there is a link between employee satisfaction and customer satisfaction, leadership, productivity, and financial results. The main hypothesis of the underlying research paper is that the increase of company value can be influenced by employee satisfaction. Thus, the current research aims to investigate these interactions by comparing the results of about 10 companies in the contest “Great Place to Work” and the growth of their company value between the years 2006 and 2009.



ROLE OF ECO-INDICATORS IN ENVIRONMENTAL MANAGEMENT ACCOUNTING

Inta Brūna

Faculty of Economics and Management

University of Latvia

Aspazijas bulv. 5, Riga, LV-1050, Latvia

Phone: +37129146109

E-mail: inta.bruna@lu.lv

Keywords: eco-indicators, environmental management accounting, costs, responsibility

All aspects of business are affected environmental pressures, including accounting. It requires changes in accounting system, especially widely use environmental accounting.

The aim of this research is to evaluate possibility of implementation of eco indicators in environmental management accounting in Latvia.

To reach this objective it is necessary to develop the following tasks:

- to study what is environmental management accounting (EMA) in substance and it's significant elements;
- compare and analyse main tips of costs included in guidance of EMA with structure of eco-indicators established in Latvia;
- to describe both contributing and obstructing factors of implementation of EMA;
- to draft proposals for improvements in normative act's of enterprises to stimulate use of environmental management accounting.

This research has used the approach of economic analysis and comparative methods in studying the legislation and practices of international accounting system and environmental management accounting in different countries. In the article the monographs of the authors, publications in periodicals and other sources of literature in area of environmental management accounting and linking to Latvian situation are also analysed.

The main conclusion shows on differences of environmental indicators of Latvia in comparison with classification of costs recommended in EMA and suggestions for enhancement of EMA implementation setting are given.



New Challenges of Economic and Business Development – 2012

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GOVERNANCE ASPECTS IN THE EU RESEARCH POLICY TO SUPPORT INNOVATION

*Doctoral student **Ilze Buligina***

University of Latvia

Aspazijas bulv. 5, Riga, LV-1050, Latvia

Phone: +371 29478176

E-mail: ilze.buligina@gmail.com

Keywords: research policy, governance, innovation, risk

The paper is devoted to the governance issues in the implementation of EU research policy. Part of the research was carried out within the framework of the European Union FP7 Project “The Ethical GovernAnce of Technologies” (EGAIS <http://www.egais-project.eu/>) at the University of Namur, Belgium. The collected and analysed empirical data have provided material for further research in the field.

Based on these findings, the author has continued her research at the University of Latvia. The research is targeted at more recent developments and challenges in the EU research policy and the related governance issues. It concerns, among other things, the governance regarding the framing and implementation of innovative approaches in research and development. It is particularly challenging due to the potential risks that need to be addressed, especially under the conditions of high degree of uncertainty that the world faces today.

In the paper the author traces certain tendencies that become visible in the continuously changing governance approaches in support to innovative research and development.



IMPACT OF TRANSIT SERVICES EXPORT ON LATVIAN GDP

Aldis Bulis

*Faculty of Economics and Management
University of Latvia
Aspazijas bulv. 5, Rīga, LV-1050, Latvia
Phone: +371 25934522
E-mail: aldis.bulis@gmail.com*

Aleksis Orlovs

*Faculty of Economics and Management
University of Latvia
Aspazijas bulv. 5, Rīga, LV-1050, Latvia
Phone: +371 29287289
E-mail: aleksisorlovs@gmail.lv*

Roberts Škapars

*Faculty of Economics and Management
University of Latvia
Aspazijas bulv. 5, Rīga, LV-1050, Latvia
Phone: +371 29104534
E-mail: roberts.skapars@lu.lv*

Keywords: GDP, export, transport, transit

Transport is an integral part of economy, because it is a sector of the economy, without which there can be no other industry. An efficient transport system and the increase of the transit export volume improves the competitiveness of national firms in foreign markets, promote production and employment growth. The revenue from transit transport constitute more than a half of the services export in Latvia. Latvia lacks a common methodology to assess the contribution of the transit services export at national economics, so this article aim is to research the impact of transit services export on Latvian GDP. This assessment may be useful for planning and evolution of transport transit projects, as well as for development of transport industry as a whole.

Officially in Latvia transit is the part of transport and communication sector, that was 9.9% of Latvia's GDP in 2010. Latvian transit services consists of seaports, railways, road transport, warehousing and customs brokerage, logistics centers, as well as shipping agents, forwarding agents and petroleum and petroleum product pipeline operator services. Looking at the turnover of Latvia's seaports it can be concluded that approximately 90% is made of transit freight. Approximately 85% of all transported freight is carried by railway transit. In 2010 the growth of transport sector was mainly based on the increase of export freight shipments.

The article is focused on the identification of existing models of transit services assessment and the development of proposals for their improvement. Original investigations and analysis of international research literature will be performed. Logical-constructive method, monographic method, expert's method and statistical forecasting method will be applied in the investigation.



New Challenges of Economic and Business Development – 2012

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EMPLOYER BRANDING: OBJECTIVES, CHANNELS AND PERFORMANCE INDICATORS

Katharina Buttenberg

University of Latvia, FH Kufstein – Kufstein, Austria

Einsteinstrasse 100, 81675 Munich, Germany

Phone: +49 151 /580 500 91

E-mail: buttenberg@gmail.com

Keywords: Employer Branding, Marketing-Channels, Marketing-Performance

Employer Branding is the new buzzword for marketers as well as in human resource management. Employer Branding is defined as “targeted, long-term strategy to manage the awareness and perceptions of employees, potential employees, and related stakeholders with regards to a particular firm. The strategy can be tuned to drive recruitment, retention, and productivity management efforts”. (Dr. John Sullivan 2004, p. 1)

In the last decades, a substantial research effort has been put into analyzing the importance and the impact of strategic brand management on business performance. Franz-Rudolf Esch, Tony Aperia, Mats Georson or J.N. Kapferer have provided elaborate literature on strategic brand management and brand leadership. Kevin Lane Keller and David A. Aaker have provided behavioral scientific approaches to measure brand equity.

In the paper to be presented, I will analyze how the single objectives for employer branding are translated into marketing activities and marketing channels, how the performance of the activities is measured and what indicators are used and useful to measure the performance of employer branding in the marketing context.

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GOODWILL AND GAIN FROM BARGAIN PURCHASE – THEORETICAL ANALYSIS OF ACCOUNTING POLICY

Inga Būmane

University of Latvia

Aspazijas bulv. 5-434, Riga, LV-1050, Latvia

Phone: +371 67034633

E-mail: inga.bumane@lu.lv

Keywords: goodwill, bargain purchase, acquisitions accounting, accounting policy

In the accounting theory the goodwill is one of the most contradictory evaluated and specific accounting objects. Its value is determined by means of the calculation of residue as a result of an acquisition of an enterprise or in the process of preparing consolidated annual statements. There are many articles in the accounting literature with the discussions on the economic core of goodwill and gain from bargain purchase, and on their accounting methodology.

The paper presents the summary of the research on the economic content of goodwill and gain from bargain purchase, and the comparative analysis of their accounting policy. The paper deals with the internationally recognised problem that several accepted methods of accounting for goodwill arising from the acquisition of an enterprise coexist, as a result of which the accountancy data of different enterprises and also those of countries are incomparable.

The aim of the research is to study and analyse the methods and related problems of accounting for goodwill both on an international scale and in the accountancy of the Republic of Latvia.

The research methodology is based on the comparative analysis of the requirements set in the documents regulating accounting in Latvia, the International Accounting Standards and the documents regulating accounting in Great Britain and USA. The paper covers also the analysis of authors' conclusions, publications in the periodicals and other bibliographic sources.



USE OF CLUSTER ANALYSIS IN DESIGNATION OF TRADE AREAS

Mārtiņš Danusēvičs

University of Latvia

Aspazijas bulv. 5, Riga, LV-1050, Latvia

Phone: +371 67034610

E-mail: martins.danusevics@lu.lv

Keywords: Retail, Store location, Cluster analysis, Trade areas

The process of determining a new location for a retail store consists of several territorial levels, starting with selection of a country and ending with a selection of a precise address. One of the levels is the selection of a region within a country. In a classical approach this region coincides with an administrative region in a country. However, such an approach is not always suitable. As the chosen region for retail store location should be a homogenous territory with similar economic, demographic and market traits, an administrative region is not always the best choice. Especially when looking at the European Union it is obvious, that many regions are not homogenous. Since the European Union has an open market policy, it facilitates cross-border movement of workforce, capital and trade. As a result, the administrative regions have blurred with other regions and often of neighboring countries. Author has considered this effect and offers the use of cluster analysis for designation of regions for retail analysis.

The basis of the approach is the use of cluster analysis to form regions from smaller municipalities based on statistical indicators that are important for the retail sector. Author suggests the use of demographic, economic and market indicators. Demographic indicators considered are the density and growth of target demographics, based on age, gender, family status. Economic indicators considered are purchasing power, disposable income etc. Market indicators are based on competition level, such as retail turnover, retail area and market concentration.

To main challenge in clustering municipal territories is to maintain a geographical integrity of final clusters. Additional data of geographical coordinates is used, to ensure that cluster members are neighboring territories, to form logically viable regions. The resulting clusters will be used in further analysis of most appropriate territories for retail development. The main objective of such an approach is to identify cross-border regions with possible high movement of consumers. Potential examples are cross-border trade in Portugal and Spain, Benelux countries, Germany and Poland and others.



New Challenges of Economic and Business Development – 2012

May 10 - 12, 2012, Riga, University of Latvia

EVALUATION OF BALTIC ECONOMIES' OVERHEATING: IDEA OF STRUCTURAL DEVIATION

Dr., Associate Professor Mindaugas Dapkus

*Department of Economics
Vytautas Magnus University
S. Daukanto 28, Kaunas, LT-44246, Lithuania
Phone: +370 615 21158
E-mail: m.dapkus@evf.vdu.lt*

Dr., Associate Professor Jonė Kalendienė

*Department of Economics
Vytautas Magnus University
S. Daukanto 28, Kaunas, LT-44246, Lithuania
Phone: 00 370 37 327852
E-mail: j.kalendiene@evf.vdu.lt*

Keywords: economic structure, economic growth, overheating, evaluation method, Baltic States

Gradually the term of overheating that was so commonly used not long ago in 2004-2008 is left behind. Commonly the overheating is defined as the period (a moment) in economy when production output exceeds its potential. In the proposed research idea the overheating is treated as economy's structural divergence from some "structural benchmark". The practical importance of overheating is not on the first topic at the moment but despite that the scientific and applied problem remains: there is still no reliable method that could be used for detection of overheated economy.

Methods for evaluation of economy overheating were developed in several ways. One of them is a suggestion to detect the overheating by analyzing the deviation of many overheating indicators (such as unemployment, current account deficit, price level, etc.) from their average in the past period. Some of the research evaluates the overheating by estimation of deviation of actual output from its potential. Very often H-P filter is used for this. The common shortage of both of these methods is insufficient reflection of economic relations and overheating factors. These models are more likely to be pure statistical, econometrical than to explain economic logics. Even those models that suggest to estimate the overheating by using output gap, they lack a better and more detailed explanation and reasoning of potential output. These main shortages show that there is still a need for a better method of estimation of overheating, which could link overheating with its risks, economic factors and which could help to understand and reveal the mechanism of overheating. So this paper aims to suggest an alternative method for evaluation of overheating of an economy and to apply this method for evaluation of Baltic States' economic situation in 2000-2010 period. The suggested method could give a possibility to forecast future deviations from sustainable development of an economy, to react properly, and to prevent an economy from being overheated and from losses of forthcoming recessions.



New Challenges of Economic and Business Development – 2012

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OPPORTUNITIES OF HYDROGEN MARKETING – PUBLIC OPINION ANALYSIS

Justs Dimants
Faculty of Economics
and Management
University of Latvia
Aspazijas bulv. 5, Riga,
LV-1050, Latvia
Phone: +371 28855966
E-mail: justs.dimants@inbox.lv

Biruta Sloka
Faculty of Economics
and Management
University of Latvia
Aspazijas bulv. 5, Riga,
LV-1050, Latvia
Phone: +371 29244966
E-mail: biruta.sloka@lu.lv

Jānis Kleperis
Institute of Solid
State Physics
University of Latvia
Ķengaraga iela 8, Riga,
LV-1063, Latvia
Phone: +371 67262145
E-mail: kleperis@latnet.lv

Ilze Dimanta
Faculty of Biology
University of Latvia
Kronvalda bulv. 4, Riga,
LV-1010, Latvia
Phone: +371 29776085
E-mail: ilze.dimanta@lu.lv

Jānis Kleperis Jr.
Faculty of Geography
and Earth Sciences
University of Latvia
Alberta iela 10, Riga,
LV-1010, Latvia
E-mail: Janis.Kleperis@gmail.com

Māra Gudakovska
Faculty of Economics
and Management
University of Latvia
Aspazijas bulv. 5, Riga,
LV-1050, Latvia
E-mail: Mara.Gudakovska@gmail.com

Pēteris Tora
Riga State Gymnasium No. 1
Raiņa bulv. 8, Riga, LV-1050, Latvia
E-mail: torapeteris5@inbox.lv

Keywords: marketing, brand name evaluation, hydrogen energy

Increase of oil prices as well as problems in supply of fossil energy resources have led to development and use of renewable energy resources, including hydrogen energy. Popularity of renewable energy is growing in with each passing year. There are multitudinous successfully projects and more often companies and different societies start to implement renewable energy projects to manage efficient financial resource spending as well as reduce the impact of energy suppliers. Hundreds of good practice are examined and developed world wide, including operation of university campus, public transport, operation of villages, etc. Paper examines the readiness of acceptance of renewable energy resources and in this case – hydrogen for energy supply of Academic Centre. In the survey were questions on respondent's, attitudes, behaviour, some environmental knowledge as well as information on socio-economic characteristics of respondents, including, questions about the project acceptance, scientific value and safety issues. The main conclusion is that the main results shows acceptance for the project. Methods used for analysis: scientific publications research, evaluation of practical knowledge transfer and marketing tools application evaluations using questionnaire. For data processing and analysis indicators of central tendency or location and variability, crosstabulations were used.



New Challenges of Economic and Business Development – 2012

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THE ECONOMY INTELLECTUALIZATION MANAGEMENT: ORGANIZATIONAL ASPECT

Dr. Oleksiy Druhov

*Deputy Director in scientific work of Lviv Banking Institute
Banking University of National Bank of Ukraine, Lviv, Ukraine
Phone: +380 676744962
E-mail: alexlbi@rambler.ru*

Dr. Mukola Voznyuk

*Director of Lviv Banking Institute
Banking University of National Bank of Ukraine, Lviv, Ukraine*

Keywords: intellectualization of economy, management, higher education, science, economy growing

Changes in production structure which are taking place at the end of XX – beginning XXI centuries in particular, an increasing proportion of non-material production, information technology, increasing competition in the markets, the spread of globalization, have led to the need for changes in theoretical approaches to the problem of economic growth. Non-material factors of production – knowledge, software, information, training system are playing ever more important role in its ensuring. Rapid economic growth is impossible without a developed system of science and higher education, which together form the intellectual capital of the nation and provide a process of intellectualization of the economy.

Taking into consideration the expediency of management process of economy intellectualization and on the grounds of the carried out analysis, a definition of the economy intellectualization management has been suggested, the latter being understood as a process of purposeful impact on creating and accumulating by the society knowledge, and skills of how to apply it according to set priorities and objectives. The functions of this notion have been grounded, these being economy intellectualization planning, economy intellectualization analysis, economy intellectualization organization, economy intellectualization monitoring. A system of management has been carried out. The definition of the policy of management has been given, this being the totality of methods and tools of implementation of economy intellectualization management. The priorities and objectives of the conception have been listed. All this, in its integrity, provides instruments for a state management of economy intellectualization.



New Challenges of Economic and Business Development – 2012

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DIRECT USE OF KNOWLEDGE

Juris Dzelme

Higher Education Quality Evaluation Centre (HEQEC)

Vaļņu iela 2, Riga, LV-1050, Latvia

Phone: +371 67213870

E-mail: aiknc@aiknc.lv

Zane Krišjāne

Higher Education Quality Evaluation Centre (HEQEC)

Vaļņu iela 2, Riga, LV-1050, Latvia

Phone: +371 67213870

E-mail: aiknc@aiknc.lv

Ivars Linde

Riga International School of Economics and Business Administration (RISEBA)

Meža iela 3, Riga, LV-1048, Latvia

Phone: +371 67500265

E-mail: rsebaa@rsebaa.lv

Keywords: education, innovation, human needs, knowledge society, self-actualization

Human centred approach in economics means, that should be investigated the main needs of each human being and the ways, how to satisfy these needs using economics as a tool. We can use the well recognized classification of human needs, introduced by Abraham Maslow [1]. This classification includes: Physiological needs, Safety needs, Love and belonging, Esteem, Self-actualization. Economics usually deals with Physiological needs and Safety needs. Development of the Knowledge Society should push more interest to other needs.

Science is the way how to create knowledge using money. Innovation is the way how to receive money using knowledge. People are ready to pay money, if they receive satisfaction of their needs. Self-actualization is a very wide group of human needs, which has not investigated in economics. Creation of the conditions, where people will have possibility to receive and to create new knowledge, could be put in the basis the important kind of innovations. This kind of innovations is direct use of the existing ("produced") knowledge to involve people in the process of the continuous production of new knowledge [2]. The necessary adaption of the knowledge must be fulfilled for such use. Activities of such kind, mixing entertainment and education, already are going on (for example, the TV programme *Discovery*), but the place of such activities in future economics should be much greater. Education and research should be used for the direct satisfaction of the Self-actualization.

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THE IMPACT OF STAKEHOLDERS AS MEMBERS OF A VOLUNTARY BOARD

Doctoral student Helene Eller

University of Latvia

Oesterreichischer Alpenverein (Austrian Alpine Club)

Olympiastrasse 37, 6020 Innsbruck, Austria

Phone: +43 512 59547-14, +43 664 855 64 24

E-mails: helene.eller@alpenverein.at, helene.eller@fh-kufstein.ac.at

Keywords: stakeholders, voluntary board, nonprofit organization

The voluntary board is the governing body of a nonprofit-organization. Volunteer leaders are responsible, accountable for the performance of a nonprofit-organization, they represent legally their organization. The role of a voluntary board is crucial to the success of a nonprofit-organization and therefore a lot of considerations are to take in: terms of board members, frequency and organization of board meetings, size and composition of the voluntary board, education of board members, the representation of stakeholders:

A stakeholder is “any group or individual who can affect or is affected by the achievement of the organization’s objectives” [1]. Stakeholders could be: members, customers, volunteers, employees, board, interest groups or the government. The question is which stakeholders are to be considered as important for the nonprofit-organization. Speckbacher specifies the presented definition and provides an answer to this question: A stakeholder of an organization is a party, a group that contributes specific resources that create value for the organization [2]. Consequently there are at least two groups of stakeholders: primary and ordinary stakeholders. Nonprofit-organizations have founders but no owners. Legally they are juridical persons but the important difference to for-profit organizations is that they have no owners as natural or legal person who could be entitled to a part of the organization’s profit. Stakeholders play an important role for these organizations. They replace the missing owner. And it is the board members who should be representatives of different stakeholders of the organization.

Nonprofit-organizations face the challenge of being multiple-stakeholder organizations. Stakeholders judge the organization’s effectiveness [3], i.e. performance on their point of view. The contribution of this paper is to answer the question how a board can fulfill its leadership role as governing body having members representing different stakeholders.

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New Challenges of Economic and Business Development – 2012

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THE APPEARANCE AND DISAPPEARANCE OF SAY'S ENTREPRENEUR IN NORWAY AND THE UNITED STATES

Ib E. Eriksen

*The Kristiansand School of Management
University of Agder, Norway*

Professor Emeritus Arild Sæther

*The Kristiansand School of Management
University of Agder, Norway
Servicebox 422, NO-4604, Kristiansand, Norway
Phone: +473 8141519
E-mail: arild.sather@uia.no*

Keywords: entrepreneur, economics teaching, Norway, the United States

This paper outlines how the concept of the entrepreneur was introduced in economics; it provides an understanding how this concept became part of economics teaching in Norway and the United States; finally it explores why the concept of the entrepreneur disappeared from economics textbooks.

The farmer is an entrepreneur wrote Richard Cantillon in 1755. He argued this because farmers grow the agricultural produce, take the produce to market and ultimately take the risk if the produce is not sold to profitable prices. Jean-Baptiste Say extended this analysis and introduced the entrepreneur as a fourth factor in production and as an important factor in economic development. His books became popular and that popularity ensured that the concept of the entrepreneur became an integral part of the teaching of economics in Europe and North America. The Norwegian and the American case is explored in some details.

The entrepreneur played an important role in teaching of economics until the 1930's and 1940's. In Norway Ragnar Frisch, with a strong emphasise on mathematics and quantitative methods in economics and his Oslo School of Economic Planning, had no use of entrepreneurs. In the United States Paul Samuelson, who was an admirer of Frisch, with his 'neoclassical economics' rendered the concept of the entrepreneur redundant.

Despite the fact that the entrepreneur plays an increasing role in economic development in both rich and poor countries the concept of the entrepreneur has not yet been reinstated in most textbooks of economics.



BUY-AND-HOLD: THE PARADOX OF BALTIC SECURITIES MARKET

Diana Fadejeva

*Faculty of Economics and Management
University of Latvia
Aspazijas bulv. 5, Riga, LV-1050, Latvia
Phone: +37126766093
E-mail: diana_fadejeva@inbox.lv*

Inna Romānova

*Faculty of Economics and Management
University of Latvia
Aspazijas bulv. 5, Riga, LV-1050, Latvia
E-mail: inna.romanova@lu.lv*

Keywords: market efficiency, Baltic Stock Exchange, buy-and-hold, investment strategy

Understanding the characteristics of an efficient market and being able to evaluate the efficiency of a particular market are important topics for investment analysts and portfolio managers. Market efficiency is the extent to which market prices incorporate all currently available information about respective companies. In case of high market efficiency, prices fully reflect all known information, and even uninformed investors buying a diversified portfolio at the tableau of prices given by the market will obtain a rate of return as generous as that achieved by the experts. [1] From other side, if market prices do not fully incorporate information, then there exist opportunities to make profit from data gathering and processing. An efficient market is thus a market in which asset prices reflect all past and present information. [2]

The aims of the paper are:

- 1) to reveal the key features of efficient market
- 2) to determine which investment approaches are applicable to different forms of market efficiency
- 3) by using expert questionnaires, to reveal the form of Baltic Stock Exchange's efficiency and most commonly investment strategy used by pan-Baltic investors.

The results of the expert survey show that the majority of Latvian investors use an investment strategy which is not compatible with the level of market efficiency of Baltic securities market, which means that, in order to improve the quality of investment and increase predictability of expected returns, investors' attitude towards selecting investment strategy should be changed.

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INTERNAL AUDITING IN LOCAL GOVERNMENTS

Ivita Faituša

Faculty of Economics and Management

University of Latvia

Aspazijas bulv. 5, Riga, LV-1050, Latvia

Phone: +371 26141974

E-mail: ativi@inbox.lv

Keywords: internal audit, local government, internal control

Internal audit provides support to the leader of the local government in the establishment of an effective and comprehensive internal control system by assessing and providing recommendations for improvement of internal control system.

The aim of this research is to assess the development perspective of internal audit in Latvian local governments.

Three tasks have been set in order to reach the aim of this research: 1) analyze the nature of the internal audit, 2) analyze the basic needs of internal audit in local governments in Latvia, 3) research internal audit development situation in Latvian local governments from year 2001 till year 2011.

The research is based on three methods: 1) logically constructive method – logical interpretation of the already published by the other authors data about internal audit in local governments, 2) monographic method – interpretation of the data based on proven knowledge about internal audit in local governments, 3) document analysis method – study and evaluation of the normative acts and scientific researches, parameters of local governments budgets at the context of the aim of this research.

From the results of the research the author has come to the following conclusions. The internal audit has been organized and is working only in 17 out of 119 local governments in Latvia. Internal audit in local governments should be developed by making changes in Latvian legislation – it is necessary to introduce mandatory requirement in the legislative acts about foundation of internal audit in local governments accordingly to the criteria of local government budget indicators, number of the staff in the local government and number of enterprises with local government share capital.



New Challenges of Economic and Business Development – 2012

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IMPACT OF ELECTRONICALLY SUBSTITUTION ON POSTAL OPERATORS – AUSTRIAN AND EU MARKET

*Doctoral student **Meinhard Friedl**, MBA
Senior Development Manager, Austrian Post
University of Latvia and FH Kufstein Forschungs GmbH
Kaiserstrasse 91, 1070 Vienna, Austria
Phone: +43664 624 2294
E-mail: Meinhard.friedl@post.at*

Keywords: electronically substitution, mail volume, different clusters, three scenarios, mail turnover, European markets

There is no denying the fact that electronically substitution has a tremendous impact on the mail volume of postal operators. Future trends and market streams clearly show a tendency towards substitution of physical mail like monthly balance statements of banks or telecommunications providers' bills.

Other industries, like the airline industry showed that a substitution is possible within a very short period of time, with an assimilation factor of almost 100%.

If the substitution process of physical mail volume will succeed in a worst case scenario, postal operators may loose up to 2/3 of their delivery volume to electronically substitution and this will make it impossible to keep a network alive that shall guarantee the delivery of "other" mails, 5 days a week at every door.

The paper that will be presented will highlight key trends of the EU and Austrian market in order to figure out the intensity of that potential threat by analyzing the symptoms within two different markets.



New Challenges of Economic and Business Development – 2012

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INNOVATION AND TECHNOLOGICAL CATCH UP: WHAT SHOULD WE LEARN EMERGING ECONOMIES FROM THE EUROPEAN EXPERIENCE?

Xavier Galiegue

*Laboratory of Economics of Orléans, UMR 6221
Faculté de Droit d'Economie et de Gestion, France
BP 6739 45067 Orléans Cedex 2
E-mail: xavier.galiegue@univ-orleans.fr*

Keywords: development economics, economics of innovation, economics of knowledge, technological diffusion, convergence and catch-up process

Code JEL: O140 O47

The last ten years European Union experienced an uneven technological catch up process, which enabled latecomers to use advanced technologies and innovations without incurring high research development spending, and with large disparities in their innovation performance. Developing countries have already followed this movement, as the Eastern Asian experience proved. This evolution could be accelerated by the implementation of user innovation, which will bend it to the needs of the developing countries population. But it requires the development of technological and social capabilities, and the reinforcement of national innovation systems that will allow these countries to upgrade their innovation performance.



CERTIFICATION OF COMPLIANCE MANAGEMENT SYSTEMS AND COMPLIANCE PERSONNEL

*Doctoral student **Malcolm Gammisch***

University of Latvia

University of Applied Sciences Kufstein, Austria

Stresemannstr. 1b, 90542 Eckental, Germany

Phone: +4915222972136

E-mail: mgammisch@web.de

Keywords: Compliance Management Systems, Certification, Ethical norms

Compliance Management Systems vary widely in content, approach and aims. Legal requirements such as the Foreign Corrupt Practices Act, national legislation etc. exist, but there is no norm such as an industry or quality norm to which companies have to obey. Moral norms are necessary as precondition for Compliance Management Systems [1]. Nevertheless certifications are developed. Considering the development of certifications for public organizations such as hospitals, schools, but also private companies in the area of for example environmental, health and security standards or ISO norms a standardized profile could be helpful to reach a minimum level of Compliance Management requirements for the organizations.

Business organizations and especially audit companies set standards [2]. These need independent evaluation to judge on their pertinence. Similarly the evaluation of Compliance Officers who work with and in Compliance Management Systems and who stem from a variety of functions needs a framework. A legal background is not mandatory for the function of a Compliance manager, but often found as legal personnel knows about laws and the legal consequences of wrong business conduct. Furthermore a business understanding is indispensable to guarantee successful Compliance Management.

The paper elaborates which kinds of certifications are available and evaluates their quality. It discusses the content of Compliance Management Systems certifications and the aims which are addressed.

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New Challenges of Economic and Business Development – 2012

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PSYCHOLOGICAL ASPECTS IN INTERNATIONAL FRANCHISING

Christiane Gaul

University of Applied Sciences, FH Kufstein Tirol

Andreas Hofer Strasse 7, 6330 Kufstein, Austria

Phone: +49-171-3857814 (Germany)

E-mail: golfgaul@gmail.com

Keywords: international franchising, business, power, power distance, intercultural aspects

National and international chains emerge using franchising as a convenient base to expand with low risk and entering new and also unknown markets. In international business, franchising has granted easy and fast access to entrepreneurs helping them to start their own business, with guidance from professionals. For a franchise system to be successful many aspects play a role. However, one fact stays the same: There will always be at least two parties involved. Even before the parties are legally bound, power relationships evolve and form the stage for short, medium or long term agreement, which might be mutually benefitting or not. Emotions resulting from power distributions, pressure and possible may lead to unsatisfied business exits and can be due to non-equilibrated partnerships. In most cases it is the franchisor that is in the position of giving out the rules. The spirit of individualism and creativity is held to a minimum, since franchising roots in a branded concept, nationally as well as internationally. In today's global world, cultural differences at the work place can be the source of many problems but also the key to success. The paper examines the power distribution, locus of control in the context of franchisee/franchisor relationships. Within this focus, the research looks at Hofstede's factors of cultural dimensions and hopes to find out a pattern to enhance successful international expansions and improved franchise partnerships.



New Challenges of Economic and Business Development – 2012

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DETERMINANTS OF TEAM PERFORMANCE IN BUSINESS ORGANIZATION EMPIRICALLY RESEARCHED UNDER INFLUENCE OF BEHAVIOR – VALIDATED IN AN EUROPEAN ENVIRONMENT

*Doctoral student **Andreas Michael Giesa, MBA, MSL**
University of Latvia; University Applied Sciences, Kufstein, Austria
Ottostrasse 1, 40625 Düsseldorf, Germany
E-mail: Andy.Michael.Giesa@googlemail.com*

*Dr., Professor **Inesa Voroncuka**
Faculty of Economics and Management
University of Latvia
Aspazijas bulv. 5, Riga, LV-1050, Latvia
E-mail: voroncuk@lanet.lv*

Keywords: Team Performance, measurement, Behavioral Economics

Human resources, the economy, and large organizations face dramatic changes based on the worldwide financial and economic crisis. Thus Behavioral Economics is becoming more and more a part of daily business in large organizations. Since the 1940s, teams have played an important role and today the use of formal, informal developed teams in organizations continues to increase. As the interest in Team Performance rises, empirical and theoretical attention has been focused on varying themes such as conflict, social networking, and decision-making. The new drive of Behavioral Economics into economy has given rise to the idea to measure Team Performance including behavior. This research paper presents an executive summary of how to measure the determinants behavior of an empirical research by methods of secondary analysis, survey, and a result of a validation process through a laboratory test method in a European environment. It presents a result to measure Team Performance, including the determinants of behavior, in a summarized and representative way and gives a perspective of how to set up team so that they are performing on a high level.

This paper is based on the fact that Behavioral Economics is entering the economic business area. It summarizes aspects of Team Performance & Behavioral Economics, outlines a way to measure behavior by Team Performance and presents an executive result of an empirical research study. The authors define teams including behavior and develop a 12 dimension model of measuring Team Performance including the determinants of behavior.

Key findings are: First, Team Performance is measured in companies on a regular basis. Due to new trends in organizations also triggered by crisis, Behavioral Economics is entering into the practical environment, linked to the increased importance of measuring Team Performance. Secondly, the research result presents evidence that it is possibility to measure behavior in Team Performance and empirically presents the impact of behavior. Lastly, an important result of a dissertation in a summarized way is presented empirically that delivers a support of the entrance of Behavioral Economics into the economy and environment in measuring Team Performance with the determinants of behavior.



IMPACT OF ORGANIZATIONAL LEARNING ON THE CORPORATE BRAND OF THE ORGANIZATION

Hasan Gilani

Programme Leader, Business School

British Institute of Technology and E-commerce, London, UK

E-mail: chicogil@yahoo.com

Keywords: Organizational learning, corporate branding, employee commitment, internal branding, corporate identity

This research paper brings together the two subject areas of corporate branding and organizational learning in order to develop the competitive advantage of an organization. Corporate brand management has increasingly been seen as a strategic key issue from the point of view of shareholders/owners, top management and other stakeholders due to the fact that in the ever increasingly turbulent, dynamic and competitive markets, corporate brands are ways of creating trust, stability, and differentiation in the market.

Organizational learning prioritizes the creation and acquisition of new knowledge, and emphasizes the role of people in the creation and utilization of that knowledge. In this way, organizational learning presents an important route to performance, success and competitive advantage for the organizations. The strategic marketing literature reflects a growing interest in the role of competitive environment on a firm's marketing strategy and performance. Drawing on organizational learning theory and strategic choice theory, it is argued that a firm's strategic adaptation occurs through managerial perceptions of its corporate identity which then contributes towards its corporate branding. The focus of this research paper is on exploring the impact of organizational learning on corporate branding of the firm.

While the importance of these issues has been widely accepted, to date the linkages between organizational culture, learning, corporate branding and corporate identity have scarcely been examined together in the literature, particularly from an empirical perspective. There is some evidence that organizational learning is associated to employee commitment to enhance the corporate brands but only a few studies have focused on the effect of culture and learning on corporate identity and corporate branding. This research paper explores the relationship amongst the two broad concepts with empirical research.

The aim of this research is to explore more about the effectiveness and impact of *hybrid knowledge* on organizational learning as a tool to improve its corporate branding. For the purpose researcher selected higher education services industry to find out the new strategies for generating more profit through utilization of knowledge in an organization.

This particular research conducted such an exploratory way using the case study method for collection of interviews and surveys to have an in-depth understanding of the phenomenon of organizational learning and corporate branding through "*Hybrid knowledge*". The data analysis would result in contributing knowledge on the subject of hybrid knowledge to be used an effective tool for organizational learning which directly impacts on the corporate branding of an organization to achieve its goals and objectives.



**METHOD OF ESTIMATION OF BUSINESS VALUE
(BY EXAMPLE OF THE REGIONAL INSURANCE COMPANIES)**

Vladimer Glonti

*Shota Rustaveli State Universiti
Ninoshvili str. 35, Batumi, Georgia
Phone: + 995 555 14151
E-mail: glonti74@gmail.com*

Badri Gechbaia

*Shota Rustaveli State Universiti
Ninoshvili str. 35, Batumi, Georgia
Phone: + 995 593 722115
E-mail: b-gechbaia@mail.ru*

Keywords: investment potential, estimation of economical potential, insurance, funds of insurance institutions

The most plain and apparent indicator of investment potential of insurance companies is the value of their business. It represents the modulus that is equal to the value of shares of those companies, if those shares would be put on the market.

We suggest estimating the value of business of some sector of economics instead of the value of business of an individual enterprise. As expected the value of business of the sector is divided among the shareholders pro rata to their market shares. Such an indicator is convenient to give a primary estimation of level of development and investment outlook of this or that market (it is very important as for institutional investors, so for portfolio ones). Underestimation /overestimation of the market sector can be evaluated as difference between obtained value of business of the sector and current value of its investments.

The use of market value of the sector of economics as an indicator gives new possibilities of using the comparative approach while performing the evaluation activities. Actually, having the information about the value of the sector on the whole, practicing estimators would be able to calculate the value of an individual enterprise of this sector pro rata to its market share. In essence, the accurate and complete information is meant to calculate the multiplier of value of business/incomes from sale.

In our opinion such an approach is applicable to insurance business too. To estimate the business we made the modification of the models of real options of Black-Scholes (Black-Scholes Option Pricing Model). The last can be used for dynamical estimation and prediction of value of business. On basis of the method mentioned above we did an estimation of aggregate value of business of regional insurance companies in Ajara Autonomous Republic.



A MODEL TO LINK ORGANIZATIONAL CULTURE TYPES WITH STRATEGY IMPLEMENTATION FACTORS

Doctoral student **Ludwig Gold**

University of Latvia; University of Applied Sciences Kufstein, Austria

Kreuzberg 99, 5500 Bischofshofen, Austria

E-mail: Ludwig_g@hotmail.com

Keywords: strategy implementation, clan culture, adhocracy culture, market culture, hierarchy culture, competing values model

Implementing a new strategy has become one of the most crucial aspects in strategic management over the past decades. Although aspects of how to develop a new strategy have been tackled very often in literature the aspects of implementing a strategy successfully are not heavily represented in literature. [1] There is a newer model for diagnosing organizational culture developed by *Cameron* [2] which describes the four quadrants of a specific culture as:

- The **clan** culture – described as collaborative culture with commitment, communication and development as value driver; the theory of effectiveness behind is that human development and high commitment produce effectiveness;
- The **adhocracy** culture – described as creative culture with innovative outputs, transformation and agility as value drivers; the theory of effectiveness is based on innovativeness, vision and constant change;
- The **market** culture – described as compete culture with market share, goal achievement and profitability as value driver; the theory of effectiveness bears aggressively competing and customer focus;
- The **hierarchy** culture – described as control culture with efficiency, timeliness and consistency & conformity as value drivers; the theory of effectiveness is based on control and efficiency with capable processes.

The author will start an attempt to create a model with which those culture types [3] can be related to specific aspects of strategy implementation factors. [4] Those factors are taken from a previous literature review of the author which has shown that there are single and multiple strategy implementation factors. [5]

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**THE FINANCIAL ARCHITECTURE AND THE INTERNAL
CAPITAL MARKET IN RUSSIAN BUSINESS GROUPS:
CHARACTERISTICS AND INTEGRATION
IN THE BUDGETING PROCESS**

Doctoral student Natalia V. Gortseva

Chair of Finances

Saint Petersburg State University of Economy and Finances

Professor Irina I. Dobroserdova

Chair of Finances

Saint Petersburg State University of Economy and Finances

Keywords: business groups, corporate finance, internal capital market, financial architecture, budgeting

Business groups exist in different countries all around the world. This review studies Russian business groups through the prism of two concepts: the first one of the financial architecture and the second – of the internal capital market. The purpose of our research is finally to construct a model that allow to use all revealed characteristics in order to maximize the efficiency of business group's activity.

We use the classical concept of the financial architecture proposed by Stewart Myers in 1999, according to whom this term refers to “the entire financial design of the business, including ownership, the legal form of organization, incentives, financing and allocation of risk” [1]. We examine each element of the financial architecture to expose their features in Russian business groups.

All papers written about internal capital markets in Russian business groups date the period of 1990s – the beginning of 2000 year [2]. In our research we study the last ten years to show that despite changes in economic situation the internal capital market still exist in Russian business groups. To prove it we use a sort of “macro” and “micro” approaches. We call “macro” the approach to examine the sample of business groups in order to understand their financial characteristics and the impact to the activity of internal capital market. The “micro” method consists in the examination of one business group effecting its payments through the bank under its control that enable to see mechanisms of capital allocation and to evaluate the efficiency of business group's resource planning.

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**MUNICIPALITY AND INHABITANTS COOPERATION FOR
WELL-BEING: SALASPILS DISTRICT CASE¹**

Ansis Grantins

University of Latvia

Aspazijas bulv. 5, Riga, LV-1050, Latvia

E-mail: Ansis.Grantins@lu.lv

Biruta Sloka

University of Latvia

Aspazijas bulv. 5, Riga, LV-1050, Latvia

E-mail: Biruta.Sloka@lu.lv

Inga Jekabsone

University of Latvia

Aspazijas bulv. 5, Riga, LV-1050, Latvia

E-mail: jekabsone_inga@inbox.lv

Keywords: well-being, municipality, welfare indicators, interest groups

Salaspils municipality social dialog with different social group representatives has been interesting and internationally recognised as excellent case for joint way to well-being. Well-being is an ancient issue: all societies are trying to find the best possible solution for community well-being. The current research is devoted for update of opinions of different social and interest groups in Salaspils municipality (Latvia) and joint activities with municipality to develop well-being platform of the municipality. The methodology of the research is worked out in Council of Europe and applied as pilot research in nine municipalities across Europe. Research methods used: scientific literature studies, statistical data analysis, focus group discussions. The research was organised in 25 interest groups and have been organised several meetings/discussions of each interest groups – so called homogenous groups. The main findings are updated and worked out well-being indicators and discussed in municipality and realised in public involvement in decision making.

¹ The research is conducted in research group involving also Agnese Vaivade, Sandra Vaivade, Inara Kantane, Hermanis Rullis, Justs Dimants, Ksenija Ijevļeva, Julija Vladimirova, Evija Rusite, Iluta Skruzkalne, Anete Pujate, Agate Zake and Kristina Galihanova.



**PROFESSIONAL EDUCATION ESTABLISHMENT
OPTIMISATION: ADDITIONAL CHALLENGES FOR
MECHANICAL ENGINEERING AND METALWORKING
INDUSTRIES IN LATVIA**

Arturs Graudins

*Administrative Director, Severstallat
E-mail: Arturs_Graudins@ssl.lv*

Professor Biruta Sloka

*University of Latvia
Aspazijas bulv. 5, Riga, LV-1050, Latvia
E-mail: Biruta.Sloka@lu.lv*

Professor Inesa Vorončuka

*University of Latvia
Aspazijas bulv. 5, Riga, LV-1050, Latvia
E-mail: Inesa.Voroncuka@lu.lv*

Ilze Brante

*Ogre State Technikum
E-mail: Ilze.Brante@ovt.lv*

Keywords: professional education; metalworking industry; education quality

Metalworking industry is one of the most important industry branches in Latvia it is among the attractive employers and leaders of Latvia export already for many years. Education of next employees in metalworking industry is on great importance in case of education expenses reduction, emigration of specialists, unemployment and huge structural changes in professional education organisation. In 2010 and 2011 authors have participated in extensive survey of all professional schools for metalworking industry and Riga Technical University and have asked evaluations and views of students, teachers, university professors as well as employers. There were asked questions influencing education quality, professionalism, gained knowledge skills, also attitudes and values. The survey questions were constructed to give evaluations in scale 1-10 to make deeper analysis of data including multivariate analysis of responses. The results of the surveys showed the trends in strengths of the metalworking industry professional education, as well as narrow places, risks and needs for immediate actions to keep competitive professional education in metalworking industry in Latvia also for future. Active work of the Association of Mechanical Engineering and Metalworking Industries of Latvia, enthusiasts of metalworking industries and regular approaches to policy makers and politicians gives some hope for competitive professional education for the metalworking industry in Latvia also in future.



New Challenges of Economic and Business Development – 2012

May 10 - 12, 2012, Riga, University of Latvia

GLOBAL CHANGE IMPACT ON THE INSURANCE INDUSTRY

Dr.oec., Associate Professor Aija Graudiņa
BA School of Business and Finance
K.Valdemāra iela 161, Riga, LV-1013, Latvia

Keywords: global change, insurance industry, risk management

The range of the global change is wide. In the long term, climate change will inevitably affect the world economy's development in its entirety. Climate change acts as a threat multiplier for instability due to the consequences of extreme weather, drought, flooding, retreating glaciers, rising sea levels, changing natural habitats, and the spread of disease.

Future catastrophe risks may be hidden in the complexity and vulnerability but whose interconnectedness is unrecognised. Most of the outcomes of these single issues are insured risks and opportunities for insurance companies arise from a new dynamic: the collapse of the societal fabrics; the emergence of social network and related topics; renewable resources; liability shift [1].

The insurance industry should use the unique challenges to create and offer techniques and services for reduction of the climate change impact at national and companies' level. Insurers will need to review the existing system of risk assessment, underwriting, indemnity, reinsurance, as well as the offer of services and evaluate new insurance options for climate change and future catastrophe risks. Areas in the insurance system are possible: in the insurance industry, business activities, management and new services. The administrative model of combined insurance – the insurance scheme is the optimum choice for management of systematic risks, which are global change risks, from both theoretical and practical point of view. Scientific induction method is used for summarizing individual facts in general statements and coherencies. The dynamic analysis method, data grouping method, statistical graphical method are used for the analysis of statistical data.

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**REVENUE COMPONENT OF THE MUNICIPAL FINANCE
EQUALIZATION FUND – POSITIVE FACTORS AND RISKS
OF REAL ESTATE TAX**

Eduards Gross

University of Latvia

Aspazijas bulv. 5, Riga, LV-1050, Latvia

Phone: +371 29249918

E-mail: eduardsgross@inbox.lv

Keywords: municipal finance equalization fund, real estate tax

Real estate tax (RET) is a state tax, and yet the only one fully transferred into the municipal budget. Municipalities administer this tax on their own and tax with it all property within the territory of the municipality.

The biggest RET-related problems are the people's debts, which are in total particularly large in the big cities of Latvia and in the region of Riga, and the unregulated system of determining the assessed value of real estate, which is in many cases unfair to the owners of similar property. Regardless of people's RET debts, this does not release the municipalities from the obligation to make payments into the municipal finance equalization fund (MFEF) based on the planned RET revenue, which in its turn increases dissatisfaction with the current situation. The RET revenue forecasts are used in calculating the MFEF revenue, but a part of municipalities would like the tax to be left out of the calculations of MFEF amount.

The purpose of the article is to determine, via analysis of legislation and expert opinions, the most essential issues in relation to RET in Latvia, as well as their potential solutions, possible benefiting and losing parties resulting from different decisions aimed at improving the situation.

Considering the development level of regions of Latvia and the regional development potential, it is crucial that we understand the potential consequences of exclusion of RET from the MFEF revenue forecast calculations, and on the grounds of this analysis to find the optimal solution for further action.



New Challenges of Economic and Business Development – 2012

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OPEN DIALOGUE BETWEEN INSTITUTIONS AND CITIZENS: CHANCES AND CHALLENGES

Doctoral student Ilze Gude

University of Latvia

Aspazijas bulv. 5, Riga, LV-1050, Latvia

Phone: +371 2 6522438

E-mail: ilze.gude@inbox.lv

Keywords: citizen initiative, social partnership, institutions, dialogue

Non-governmental organizations (NGOs) impact on the implementation of legislative initiatives and social dialogue is not yet examined in academic research in Latvia. However, in the EU and worldwide many scholars have studied the role of NGOs in general and their impact in particular, on public administration. These studies are of crucial importance.

This paper outlines the dialogue between citizens and EU institutions, citizens' initiative and its implementation. The paper highlights other elements of "direct democracy" in the EU, namely Article 11 (2) TEU (Treaty of the European Union) [1], which states: "The institutions shall maintain an open, transparent and regular dialogue with representative associations and civil society". In spite of the imperative character of this definition, there is a question "What do institutions and stakeholders think and feel about the Lisbon dialogue-setting?" "Institutions" are addressed here in general and without any differentiation. The author will discuss the meaning of the "institutions" and "representative associations and civil society". The provision – financial and technical – of the Horizontal Civil dialogue will be observed. The competence of the institutions is described in Article 48f TEU. Institutions are accorded only a preparatory role, whereas decision-making pertains to the Member States. The scope of the dialogue within the definition of Article 11 (2) TEU restricted to questions of Union secondary law legislation is observed parallel to the scope of the Citizen's Initiative (Article 11(4) TEU [1; 5].

The role of the EU Institutions implementing their own dialogue will be observed. The paper highlights the manifestation of "transparent and regular dialogue with representative associations and civil society" in Latvia [2]. Analysis of the legislative rights implementation in the legal system in Latvia in the context of the EU requirements is provided. The methodology of this paper will be based on qualitative analysis in respect to monographs and research papers by experts in this area, EU and LR legislative acts and documents as well as reports of the governmental institutions. On the basis of the main findings the paper provides conclusions and suggestions. The author will pay attention to the fact that after joining EU and consolidation of Latvian legislation, the impact of NGOs on social dialogue has increased including a requirement for closer cooperation between the social partners in accordance with EU legislation. Currently, legislative initiative of NGOs is included in the specific laws and regulations only, and is not widespread in the EU. However, the social dialogue in Latvia is still limited and requires closer cooperation with social partners in other EU Member States.

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New Challenges of Economic and Business Development – 2012

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INTERNATIONAL SALES PROCESSES FOR INDUSTRIAL GOODS

Franz Haas

Phone: +43 664 80 919 32 (Austria)

E-mail: Franz.haas@inext.at

Keywords: sales network, sales costs, sales processes

Introduction / Motivation. Which sales network is necessary and how we can handle the sales costs, to be still competitive?

Goal is, to find/develop successful strategies to be more competitive against local acting companies. It will be part of the work, to find future orientated sales strategies which should also implement the new “possibilities” on communication medium, to minimise the “feeling” of the geographical and cultural distance between the buyer and seller.

How can the sales process chain be optimized, to be more effective – “make more with the same or even less”?

Situation. The traditional standard sales processes, especially for industrial goods – B2B, was and is mostly based on face to face communication (buyer – seller). With the Internet and Email is it possible to get very fast a lot of information together, but in the same time it is much more difficult to control the flow of information. The sales professionals have to “control” very carefully if the leads get the right information!!

With increasing distance between the seller and the “customer” the efficiency, or better the “working time on the customer / prospects”, get dramatically down (travelling time, different languages, culture ...) and the costs increasing!

The new “Technologies” which are already used in the B2C business are mainly not used in the B2B field and it seems like, that there is a certain “acceptance wall” on both sides.

One of the reasons is for sure that, the technologies are growing (tablet PC, social networks, virtual sales places ...) quite fast and it’s difficult for organisations to find the right technology, which is successful and will be also accepted on the market – like a standard!

Outcome. Based on the status quo (technology screening also in other business fields), there should be an answer about the possibilities of using new techniques and methods.

The goal is to build up a “Road map” which describes and coordinate all possibilities and show the advantages to implement new improved processes, tools and methods to be more successful:

- finding new prospects;
- Working with professional tools (CRM...);
- optimal sequent of events (shows, congress, visits);
- prepare suitable offers;
- negotiation & final agreement;
- keep satisfied customer.



THE EFFECTS OF THE EXTERNAL QUALITY CONTROL ON THE AUDITOR MARKET IN GERMANY, LATVIA AND AUSTRIA

– With Focus on Small and Medium-Sized Audit Companies –

Doctoral student **Gabriele Hahne**

Hahne Revisions- und Treuhandgesellschaft mbH

Wierlings Busch 73, 48249 Dülmen, Germany

Phone: +49 2594 783040

E-mail: ghahne@wp-hahne.de

Keywords: Auditor Market, Stronger Regulations, Quality in Audits, Small and medium-sized audit companies

After numerous spectacular balance scandals in the United States and Europe an international discussion about the quality of audits as well as the necessity to rise the quality of financial audits arose [1]. The United States of America responded to this discussion with the “Sarbanes-Oxley Act” [2], while the European Union decreed the directive 2006/43/EC.

The mentioned directive updated the statutory provisions for the professional guild of auditors to increase the quality of audits. In detail it demanded an external quality-control-system combined with public supervision for the profession of auditors to ensure a better quality. Due to this fact the audit companies now have to fulfil a large range of requirements to provide evidence of their auditing-quality and furthermore of the quality standards within their company. Since many small and medium-sized companies aren’t able to fulfil these new requirements, the number of small and medium-sized audit companies decreases noticeably.

In my paper I will present the results of my research concerning the effects of external quality control – given by law – on the auditor market in Latvia, Germany and Austria focussing on small and medium-sized audit companies. Additionally I will examine, if the external quality control, which was one of the justifications of the conversions of the EU-directive 2006/43/EC, is able to increase the quality in audit companies at all.

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THE IMPACT OF DATA PROTECTION MEASURES ON SMALL AND MEDIUM-SIZED ENTERPRISES

Doctoral student Karl-Ludwig Hahne

HMC Hahne Management Consulting Unternehmensberatungsgesellschaft mbH

Bamberger Str. 5, 96135 Stegaurach, Germany

Phone: +49 151 15169734

E-mail: khahne@hmc-hahne.de

Keywords: data protection, data security, small and medium-sized enterprises, statutory data protection measures

Due to the recent economic situation, companies can't afford to ignore the importance of data protection. The company's reputation is at stake, if the requirements of data protection aren't satisfyingly fulfilled. Numerous legal regulations try to ensure a high standard data protection; the very fact that the German legislation contains more than five extensive laws concerning this topic, underlines its influence. In addition to the given laws, various regulations related to the use of media have been introduced. Keeping track of the various requirements is almost impossible for SME's. [1]

A 100% implementation in SME's is often not practicable, since the many obstacles complicate the organization and economic profitability is most of the times missing. But what happens if data security is handled carelessly, showed the recent data security scandals within well-known companies. [2]

The interplay of legal principles and the particular business situation evokes a certain discrepancy: due to the given employee structures conflicts of interest, which endanger the data security, may arise.

Apart from examining the given law this paper takes into consideration the actual scientific state concerning the possibilities of data protection. Taking this as a basis some possibilities of a transfer into practice will be demonstrated. The given demonstration will concentrate mainly on the economic impact in SME's when realizing statutory data protection measures.

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HOTEL-CUSTOMERS' DECISION-MAKING: INFLUENCE OF GUEST SEGMENTATION AND TARGETED COMMUNICATION

Sandra Heiden

University of Latvia; University of Applied Sciences, Kufstein, Austria

Ludwig-Thoma-Str. 28, 82008 Unterhaching, Germany

Phone: +498 9189356910

E-mail: Sandra.heiden@ts-and-c.com

Keywords: Hotel industry, decision-making, guest segmentation, targeted communication

Especially in the last years, it is difficult for companies in the hospitality industry to increase or stabilize their market share. There are various reasons, including rising international competition, slow or decreasing economic growth rates, and often oversupplied markets [1]. Only if a hotel company understands why and especially how their guests make purchase decisions, they will be able to influence these judgments. Hence, further research seems necessary to understand or at least gain more insights into decision making and its impacts on purchasing in the hotel industry [2].

Understanding guests' needs and decisions and having a clear picture about the guests will be a prerequisite for hoteliers in the future to survive and prosper [3]. Hence, marketing of the future should rather choose the customers' perspective.

The aim of this paper is to show how guest segmentation and targeted communication may reduce the uncertainty linked with services and facilitate purchase decisions. Decision-making of guests can be influenced by communicating differently with varying customer segments. To analyze the effect of marketing communication, hotel data of different hotels will be analyzed and the purchase behavior of guests with communication and guests without targeted communication will be compared. Especially the combination of guest segmentation and differentiated communication should be analyzed with the help of transactional hotel data such as revenue, number of stays and activity. If the behavior of guests with targeted communication varies, it has strong practical implications for future marketing strategies of hotels. If guests who received communication based on segmentation models and show increased revenue patterns, hotels should invest in targeted and segmented guest communication furthermore.

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THE IMPACT OF PERSONALITY TRAITS AND BEHAVIORAL PATTERNS ON THE EFFICIENCY OUTCOMES OF BUSINESS MANAGEMENT DECISION MAKING

Christopher Hoeckel

Biberstraße 19, 83098 Brannenburg, Germany

Phone: +49 8034 705 88 63

E-mail: info@hoeckel.net

Keywords: decision making, intuition, rational, personality traits, efficiency

Since decision making behavior has been in the focus of business management both from a scientific and a professional angle there seemed to be a dispute whether rational [1, p. 117] or intuitive decision making [2, p. 278] leads to better outcomes. By now scholars agree that effective organizations don't have the luxury to choose between intuitive and rational decision making [3, p. 139], instead to understand how different factors like personality, problem characteristics, the decision making context and decision characteristics influence the decision making process [4, pp. 7-10]. According to the literature, the personality pre-determination [5, p. 162] and the structure of problems (ambiguity) [6, p. 45] seem to have a significant impact on the decision making efficiency [7]. Based on this conclusion there is a need to better understand how personality shapes different behavioral patterns (intuitive versus rational) and how these lead in the decision making process to higher social-economical efficiency within certain problem categories (cf. well-structured problems versus mid-structured or ill-structured problems).

Therefore the research paper which will be presented concludes on the basis of a literature review that intuitive behavior in the decision making process leads to higher social-economical efficiency within certain problem categories. The hypotheses from this conclusion will be tested by a causal model which is also proposed in the research paper. The research paper will also address the research design and research method for an empirical study.

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INFORMATION SOURCES INFLUENCING THE CONSUMERS' DECISION OF HOME LOAN OBTAINING

Ksenija Ijevleva

University of Latvia

Aspazijas bulv. 5, Riga, LV-1050, Latvia

Phone: +371 26814932

E-mail: kjevleva@inbox.lv

Keywords: home loans, marketing, commercial banks, information sources

In the early 2000s, many foreign banks had entered the Latvia banking system, attracted by the opportunities brought about by the boom in the economy resulting from the increased real estate market.

With rapid growing of competitiveness in the Latvian commercial banking, and resemblance of services offered by banks, it has become significantly important that banks detect the factors influencing the customer choice of providers of financial products. The relevant literature indicates that a great deal of research effort has been expended to investigate bank selection criteria for broad categories of customers. One promising topic, which, arguably, has not been given enough attention, is the costumers' use of information sources of home loans.

The required marketing policies formulation and implementation should be based on accurate information as the decisions based on inferior data might increase costs and reduce both the quality and quantity of banks' home loan products.

Purpose. This paper aims to investigate costumers' use of information sources, consumers' attitude toward the possibility to obtain a home loan, the choice criteria used by consumers to choose a commercial bank for loan obtain.

Methodology. A field survey of bank customers in Latvia was conducted using a structured questionnaire. The quantitative study draws data from 400 participants. The data were factor-analysed to determine the key dimensions.

Findings. The results show that there are three information sources' key dimensions.



**DEFORMATION OF A SALARY AND COMPENSATION
OF EXPENSES OF LABOUR IN THE INDUSTRY IN TERMS
OF REFORMING**

PhD, Associate Professor Larisa A. Ilyina
Samara State Technical University
Molodogvardeyskaya st. 244, Samara, 443100, Russia
Phone: +784 62784381
E-mail: KarimovaLA@mail.ru

Keywords: salary, labor, industry, increase, growth, productivity

The research objective is the theoretical and the methodological substantiation and working out of the methodical toolkit of increase of efficiency of labour of the personnel of the industrial enterprises in modern conditions on the basis of formation and implementation of mechanisms of motivation and stimulation of labour activity.

It was used system and economic-statistical methods of the research, allowed to generalize and develop available methodological approaches to the analysis of a condition of labour relations in their interrelations with market economy developments, theoretical researches of laws of formation and development of labour relations system at the present stage.

The basic results of research are:

- it is proved that management of system of motivation and stimulation of labour activity is closely connected with system of the social and economic relations providing effective realization of personal capabilities in the interests as of him, and the organizations as a whole;
- the mediated influence of motivators on labour productivity is given reason: through growth of job satisfaction, increase of motivation of employees, their labour activity and initiative, improving of personal and professional qualities;
- multi-criteria expert method of an estimation of labour productivity of employees have been substantiated;
- the model of management of labour processes in industries has been developed;
- the model of formation of a salary, on the basis of estimation of cost of life of the worker and the coefficients of his functional load, complexity of works, responsibility and other qualities of performing activity caused by individual abilities of the worker and level of his preparing has been developed.



DIFFERENCES IN THE BUYING BEHAVIOUR OF CLOSED FUNDS BETWEEN GERMAN AND AUSTRIAN INVESTORS AND IMPLEMENTATION OF IMPROVEMENT MEASURES – PRESENTATION OF COUNTRY DIFFERENCES

Mag. (FH) Norman Jablonski, BBA

University of Latvia

Fleischmarkt 20-22/4A, 1010 Vienna, Austria

Phone: +43 664 545 68 66

E-mail: norman.jablonski@gmail.com

Keywords: closed funds, investments, investors behaviour

Closed funds are today launched for financing of large investment projects. First a capital sum has to be arranged. Investors have the possibility to participate in the projects within the placement period. Once the required capital has been provided by corporate accessions, the fund is closed. Closed funds should make the complex easier and should allow minor investors to participate into high volume investments [1].

In Germany this form of assessment has been a very successful and popular product for many decades at the investors. Thus the predominant number of the offered closed funds in Austria comes from German fund providers. Except for some exclusions the invested capital is invested out from Germany. The reasons for this lie in the fact, that the placement volume in Austria is too short to be invested in tangible assets. Generally the aggregate capital is invested in a German investment company and *de jure* in a limited partnership with the insoles of the German investors respectively. With the acquisition of the investment the investor becomes fiscally and relating to commercial law a limited partner and co-entrepreneur. Closed funds are therefore subject to the rules of corporate law.

Many German issuing houses opened branches in Austria in the last years and additionally tried to place their products also successfully at the Austrian market. In the last years many issuing houses have invested a lot of money in the marketing. In almost every bigger financial magazine there have been articles about closed funds, where brief explanations and definitions, but mainly commercial for new offered products at the market have been the content. But the big success failed.

Already before the financial and commercial crisis it has quite often been indicated by experts and professionals as well by the media that closed fund products are not so easy to dispose of and the Austrian sector is a very difficult and special market. But really reasons for the failure could not be verified.

The results show differences in the economic, legal and tax spectrum in both markets. As basis different parameters were investigated. Documents were served from the Austrian Fund Association and fact data's of German journalists and German issuing houses.

The results should be a framework for the questionnaire to verify the exact reasons.

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New Challenges of Economic and Business Development – 2012

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ASSESSING MOTIVATION FOR SMALL BUSINESS DEVELOPMENT

Ināra Kantāne

*Faculty of Economics and Management
University of Latvia
Aspazijas bulv. 5, Riga, LV-1050, Latvia
E-mail: Inara.Kantane@lu.lv*

Biruta Sloka

*Faculty of Economics and Management
University of Latvia
Aspazijas bulv. 5, Riga, LV-1050, Latvia
E-mail: Biruta.Sloka@lu.lv*

Iļona Ozoliņa

*Faculty of Economics and Management
University of Latvia
Aspazijas bulv. 5, Riga, LV-1050, Latvia
E-mail: Iļona.Ozolina@lu.lv*

Keywords: motivation, communication, management, small and medium sizes enterprises

Motivation has been studied in academic research as it is one of the key factors for business development. The motivated employees do work better with greater enjoyment they are creative show initiative and are loyal to enterprise. This article explores how role of motivation in small business performance evaluate its owners and managers, how employee motivation affect business.

Results of survey of 648 entrepreneurs will be used for data analysis, as well as structured interviews will be used to develop more detailed questionnaire for fundamental research of motivation impacts on small and medium size enterprises development. Research methods used: academic publications analysis, survey of entrepreneurs, structured interviews of entrepreneurs. For data processing it was used methods: descriptive statistics – indicators of central tendency or location and indicators of variability, multivariate data analysis – multiple regression analysis and factor analysis.

Research results were indicated that motivation has significant impact on enterprises innovativeness. Still there were managers who didn't pay enough attention employees motivation.



TRUST MARKETING: A NEW MARKETING FRAMEWORK TO INCREASE SALES PROCESS THROUGHPUT FOR HIGH-RISK PRODUCTS

Jochen Katz

University of Latvia

Hauptstrasse 26, 85716 Unterschleissheim, Germany

E-mail: jochen.katz@web.de

Keywords: marketing, trust, sales

Many products involve such a high-risk for customers that the possible damage can be greater than the advantage (e.g. a cosmetic surgery contains the risk of numbness; a nuclear power plant contains the risk of losing human life, a cryptographic device contains the risk of getting hacked and exposing critical data). Thus, potential customers of high-risk products are very concerned and corresponding vendors suffer from severe issues in their sales process (e.g. longer sales cycle, lower conversion rates, image issues) resulting in higher costs and lower revenues. In general, [1] proposes trust as a solution for high-risk situations “where the possible damage may be greater than the advantage”. Thus, if marketing would be able to build-up customer trust in high-risk products a significant problem of corresponding vendors would be solved.

For this purpose the Trust Triangle Marketing Framework (TTMF) is proposed in this paper consisting of four trust marketing strategies: reframing, experiencing, involving and mitigating. The TTMF strategies are based on the interdisciplinary trust model from [2] and intend to build up trusting beliefs for high-risk products. Trusting beliefs are the beliefs of an individual that “...the other party has favorable attributes, such as benevolence, integrity, competence and predictability” [2] and therefore make it easier for the trustor to trust the trustee.

Within expert interviews across different industries of high-risk products the TTMF is empirically tested towards its ability to (1) build-up customer trust, (2) increase sales process throughput for high-risk products and (3) increase customer satisfaction.

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New Challenges of Economic and Business Development – 2012

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EFFICIENT DIVISION OF TAX REVENUES AMONG BUDGETS

Lūcija Kavale

University of Latvia

Aspazijas bulv. 5, Riga, LV-1050, Latvia

Phone: +371 67034622

E-mail: luka@lu.lv

Keywords: tax division; earmarked revenues; revenues of the local governments

As we know, the historical argument for the emergence of taxes is the necessity to solve the common problems of the society. It means that the governments have to collect a particular amount of money to spend it for the financing of particular tasks. There are different ways how to satisfy the needs of the society: financing particular activities from the state budget in a centralized way, shifting the resources to the local governments which have some part of the competence of the state functions or shifting any tax or a part of it to the activities of particular needs of the society. Anyway, the government must solve the question about the division of the taxes among different budgets in order to ensure the financing of all functions. In Latvia different forms and methods have been investigated in order to find out the most efficient ways of financing all kinds of expenses but the results are not satisfactory. There is an opinion that the local governments must be allocated the biggest part of the tax revenues and the situation of the crisis has proved that the financing of important expenses from one earmarked tax creates a serious risk.

The aim of the article is: based on the investigation of the theories of financial science to evaluate critically the division of taxes among budgets in Latvia as well as the application of taxes in order to finance particular expenses and to make recommendations for the improvement of the tax division.



ROLE OF PERSONNEL MOTIVATION POLICY FOR EMPLOYEES' PRODUCTIVITY OF BIG COMPANY

*Doctoral student **Laura Kersule***

University of Latvia; Latvijas Mobilais Telefons

Aspazijas bulv. 5, Riga, LV-1050, Latvia

E-mail: Laura.Kersule@lmt.lv

*Dr.oec., Professor **Biruta Sloka***

University of Latvia

Aspazijas bulv. 5, Riga, LV-1050, Latvia

E-mail: Biruta.Sloka@lu.lv

*Dr.oec. **Iluta Skruzkalne***

GfK Baltics

E-mail: Iluta.Skruzkalne@gmail.com

Keywords: personnel management, competitiveness, professional development

Latvijas Mobilais Telefons (LMT) is the biggest telecommunication company in Latvia operating already almost 20 years. Telecommunication companies to be active and competitive have to pay attention to different sides of company management, including very important field – personnel management to have advanced and motivated specialists loyal to the company in long – term. LMT has developed personnel policy and actively realises it since the start of LMT in 1992. LMT has been for many years among the most attractive employers in Latvia. LMT managed to have good specialists to perform work for success of the company. Regular attention to personnel views is paid in LMT. Annual surveys of personnel satisfactions on work conditions, on correspondence professional development and individual personality development are analysed. In 2010 extensive survey on personnel motivation was conducted. Results of LMT employee surveys with comparisons of other company employee views on work motivation factors will be analysed in the paper. For survey analysis indicators of descriptive statistics (indicators of central tendency or location and indicators of variability), cross-tabulations are applied, as well as multivariate data analysis (factor analysis) is performed.



New Challenges of Economic and Business Development – 2012

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EDUCATIONAL CREDITING IN MODERN-DAY RUSSIA: CONCEPT AND PROBLEMS

Ph.D. in Economics, Dr.oec. Vladimir G. Khalin

Head of the Department of Information Systems in Economics

Faculty of Economics, Saint Petersburg State University, Saint Petersburg, Russia

Phone: +792 19180240 (mobile); +781 22730276 (work)

E-mail: vhalin@yandex.ru

Ph.D. in Economics, Dr.oec., Professor Galina V. Chernova

Head of the Department of Risk Management and Insurance Department

Faculty of Economics, Saint Petersburg State University, Saint Petersburg, Russia

Phones: +796 27187923 (mobile), +781 22734933 (office)

E-mail: chernovagalina@yandex.ru

Keywords: educational crediting, educational crediting program CREDO, favorable educational loan experiment, government program on educational crediting

Educational loan as a form of educational costs offset is widely known in the world practice. However the practice of application for educational loan is still very limited in Russia at the present time. The article reviews the distinctive features of educational crediting in modern-day Russia and draws a comparison between the foreign experience and crediting practice in Russia.

Educational loan application in Russia nowadays is characterized by the following points:

- the cost of offered educational loans is rather high, and that limits the availability of educational crediting for families with the middle income level;
- the students, without proven sources of income, have to apply for the loan under parents or guardians security;
- the interest rates for educational loans differ greatly depending on the bank.

The terms, conditions and the goals of the new educational crediting scheme – the experimental governmental program CREDO – are reviewed in the article. The program is distinguished by the following features: students are allowed to take the loan themselves and to take personal responsibility for the repayment of the loan and the interest; educational loan is issued personally to a student; students begin to repay of the loan after the completion of the course; educational loans are being offered at the least interest rates (as compared with the other educational crediting programs in Russia); students, participating in the other crediting programs, are also allowed to apply at the same time for the CREDO educational loan.

However the experimental governmental program meets a series of formidable challenges:

- the lack of firm regulations for the selection of the universities and banks participating in the experimental governmental program CREDO;
- the absence of the precise list, recording professional courses included in the experiment;
- the standards of teaching and the requirements to professional competence of the students vary considerably depending on the university.

Through the analytical review of the international experience in the field of educational crediting (first of all that of the Scandinavian countries), the article distinguishes the main directions of adjustment of educational loan practice in accordance with the present-day conditions in Russia.



New Challenges of Economic and Business Development – 2012

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SOCIAL MEDIA MARKETING FOR STARTUPS

Christoph Kisker

University of Latvia

Aspazijas bulv. 5, Riga, LV-1050, Latvia

E-mail: ch-ki@web.de

Keywords: social media marketing, procedure model, brand development

This work will classify social media marketing as a new part of marketing for increasing the awareness of brands in a scientific way. Additionally, the work will develop a procedure model, which will allow newly founded companies to increase the awareness of their brand in a cost-effective and easy way.

For the comprehension of my scientific study it is important to establish a certain base for the theme in which the most important terms of marketing, media, brand development, entrepreneurship and formation of societies will be covered. As the paper progresses from a basic concept towards a social media marketing campaign, knowledge of psychologies and informatics will be included to provide basic knowledge in order to understand social dynamics and social media technologies. Marketers can apply this flexible knowledge for various company situations. The concepts and procedure models are based on findings and analysis of newly founded companies, but can also be applied to every sized company. The work will include a significant portion of practical training where the collected results will be combined with the possibilities of social media marketing in the year 2011.

The end of the paper will bridge the written concepts and findings with practical possibilities of social media marketing. This will result in a procedure model including a checklist able to be executed within different types of companies.



**ASYMMETRIC SHOCKS' IMPACT ON LATVIAN BANKING
SYSTEM FINANCIAL STABILITY**

Doctoral student Kirils Kondratovs

Faculty of Economics and Management

University of Latvia

Aspazija bulv 5, Riga, LV-1050, Latvia

Phone: +371 29231204

E-mail: kiril.kondratov@burko.eu

Keywords: financial flows, banking system stability, international financial institutions, and asymmetric shocks

Financial disturbances can be costly. In particular, systemic events in financial markets, such as banking crises, often affect the whole society in a deeply traumatising way. Consequently, it is important to anticipate risks of such adverse development so as to try to prevent that kind of disaster and ensure financial stability. Author of this paper analyses fragility of banking system of Latvia to the fluctuations in global economy and changes in direction of international capital flows. Latvia is a small, open economy. Hence, greater role is played by Foreign Direct Investments (FDI), on the one hand gearing Gross Domestic Product (GDP) growth through banks' sector and on the other hand making economy more vulnerable to global financial fluctuations, causing asymmetric shocks, resulting in current account deficit. Author of the paper also investigates financial sustainability of banking sector of Latvia to inevitable changes in global economy raised by sub-prime crisis in USA. Author of the paper is modelling sustainability of banking system in Latvia, and gives recommendations for creation of preventive measures to minimize asymmetric shocks' impact.



ANALYSIS OF FINANCIAL LEVERAGE IN COMMERCIAL BANKS OF BALTIC COUNTRIES

Associate Professor Marina Kudinska

University of Latvia

Aspazijas bulv. 5, Riga, LV-1050, Latvia

E-mail: Marina.Kudinska@lu.lv

Keywords: financial leverage, bank management, crisis, capital adequacy

Crisis events started in 2008 missed no country and revealed those risks and problems which had not been paid due attention before the crisis. One of such underestimated risks is the risk of commercial banks' financial leverage impact upon economic development. Financial leverage is the ratio of the bank's assets towards its capital. Capital of the bank is the basis of its stability. Accordingly, the bank's reliability depends on the quality of financial leverage management while stability of banking system and degree of confidence in it directly depends on each particular bank. In order to compare the impact of financial leverage upon stability of banks, this article presents analysis of financial leverage level in world known banks that suffered much during 2008-2009 crises. Increase in financial leverage allows the bank reaching higher returns on capital. High level of banks financial leverage, in turn, contributes to occurrence of crisis events. Thus, uncontrollable credit expansion on growing market leads to increasing profits while adverse cycle phases multiply losses and deepens economic recession. Why? What is the mechanism of banks financial leverage impact upon economy? How to restrict negative effect of this impact by managing the financial leverage? Author of this article tries answering these questions. Banks of Baltic countries were chosen as the main subject for the present study. The purpose of this study is to assess changes in financial leverage level in banks of Baltic countries during various cycles of economic development, clarify mechanisms of banks financial leverage impact upon stability of the banks themselves and upon economy in general, as well as develop recommendations for financial leverage management in order to smoothen adverse economic changes.



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INNOVATION POWER AND VALUES-BASED MANAGEMENT

Carolin Kuhn

Stötthamer Straße 17, 83339 Chieming, Germany

Phone: +49-177-8747249

E-mail: carolinkuhn@web.de

Keywords: Innovation, innovation power, values, values-based management, culture, organizational culture

This paper argues that a values-based management leads to higher innovation power.

There are many different components that can influence a company's innovation power: processes, structure, methods, or maybe even the branch the organization acts in. However, there is research enough showing that innovation power is highly depending on organizational culture. Organizational culture, however, has so many different aspects that by defining it in different categories, there will always be the danger of missing something. Therefore, the author follows Edgar Schein's approach: organizational culture consists of three levels - artifacts, espoused beliefs and values, and basic underlying assumptions. According to this, companies need to have employees with shared values and organize their every day business by following the defined values. By creating such a "value community", this common understanding will multiply into all cultural subcategories of the organization – be it leadership, commitment, employee satisfaction, corporate social responsibility or flexible working schedules which are all part of organizational culture. The scientific work proposed here will link a values-based management approach to innovation power. The hypothesis is that certain values contribute to innovation while others do not. So, if a company follows certain values (for example freedom, tolerance, loyalty or others – these need to be defined until paper submission) on all levels – from management or strategy to leadership and even down to all teamwork processes, it will have a higher probability to create innovation power. There is no empirical study found yet that proves this dependence. To sum up, this paper will show the theoretical aspects of innovation power, its dependence on organizational culture and how this can be defined. Furthermore, it will explain and define a values-based management approach that highly contributes to innovation power. Finally, it will show a design for an empirical research to test the hypothesis.



New Challenges of Economic and Business Development – 2012

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INSURANCE ACTIVITIES GOVERNANCE: WORLD EXPERIENCE IMPLEMENTATION

Dr.oec., Professor Natalia P. Kuznetsova

Saint Petersburg State University

Universitetskaja nabereznaja 7/9, Saint Petersburg, 199034, Russia

Phone/fax: +781 2 2732400 (office)

E-mail: nataliakuz2010@yandex.ru

Ph.D., Associate Professor Zhanna V. Pisarenko

Saint Petersburg State University

Universitetskaja nabereznaja 7/9, Saint Petersburg, 199034, Russia

Phone/fax: +781 22732400 (office)

E-mail: janna12000@yandex.ru

Keywords: essence, reasons and mechanism of insurance activities state governance, world experience of insurance markets organization economic policy, structure of insurance markets

The paper considers the following issues analysis: the reasoning of insurance activities state governance, understanding of financial (insurance) activities governance system formation structure, process and mechanism of insurance activities state governance (goals, instruments and insurance organization structure). Special attention is drawn to the goals (solvency assessment control, equal and just access to insurance services, national insurance undertakings support, new type of continuous and sustainable economic growth provision) adequate to the methods and principles of economic policy (liberal, state, restriction of market organization mechanisms), and to the types of insurance market structure (monopolistic, oligopolistic, competitive) in different countries and regions of the world economy. We examine insurance here as a social-economic mechanism (not distinguishing between insurance lines). **The goal** of the article is to promote the idea of financial (particularly insurance) governance necessity whatever is the market structure adequate to the regulatory system having specific objectives and instruments. **The hypothesis** of the article is that processes of globalisation, liberalisation and concentration of the financial capital, have generated new outlines of national and world financial systems (financial convergence and a financial conglomeration) causing overcoming from functional to universal governance system development. **The methods** of the article deals with analysis-synthesis, historical and logical methods of investigation, methods of international comparisons. **The main summing up conclusion** of the article considers that due to the theory of the industrial organization governance the insurance market is regulated by state and non-state institutions supporting a balance between market and its structure from one side and state from the other side which keeps an equilibrium between market and state failures.



COMPLIANCE RISK OVERSIGHT: ORGANIZATIONAL CHALLENGES FOR BANKING BOARDS IN LATVIA

Doctoral student Arnis Lagzdins
BA School of Business and Finance (Banku augstskola)
K.Valdemāra iela 161, Riga, LV-1013, Latvia
E-mail: Arnis.Lagzdins@gmail.com

Keywords: banks, compliance, compliance risk, compliance management system, Latvia

Banks operate in a dynamic environment influenced by industry consolidation, convergence of financial services, emerging technology, and market globalization. All these forces combine to create inherent risk. Compliance risk, always known in the banking sector, assumes now an autonomous dignity and shares the management methods with the other risks. At the same time, the supervisory arrangement specifies the requirements for an effective and efficient management of compliance risk, among which the establishment of an independent compliance function and compliance department. In practice the compliance risk for banks and their employees consists of the fact that violations of regulations are identified and sanctioned. The probability of such a risk has increased to the extent that the regulatory density has become intensified and more complicated. The framework of compliance function in banks was established by Basel Committee in 2005 and this stimulated a large number of studies on compliance matters. There are no academic studies in Latvia or other Baltic countries regarding compliance risk management. This gives an impulse to organize a research to show developments and trends in compliance risk management practices. Since foreign regulators have generally begun to pay attention to this issue earlier than the local ones, there is concern that banks in Latvia are behind the global compliance risk management development. The objectives of research are to identify possible gaps and to contribute to the debate on the compliance risk management in Latvia's banks especially to the use of compliance management system². The complexity of compliance function urges practitioners to use the concepts of "systems" and "systemic approach", the bases of the new management culture of the twenty-first century and therefore research will offer a thorough outlook of the compliance management system. The research will be based on relevant literature review and regulatory requirements in different countries, as well as authors' professional experience related to the compliance risk management. Based on the relevant assessment, best practices and recommendations for improvement in Latvia's banking sector will be identified.

² A method by which the bank manages the entire compliance process



New Challenges of Economic and Business Development – 2012

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ANALYSIS OF FINANCIAL STABILITY OF COMPANIES IN CONDITIONS OF GLOBALIZATION OF ECONOMY

*Candidate of economic sciences, docent **Lakhtionova Liudmyla***

State higher education establishment “Vadima Het’mana Kiev

National Economic University”, Kyiv, Ukraine

Phone: + 38 (050) 6830407

E-mail: NatiKirichenko@i.ua

Keywords: financial stability, ratio, analysis, financial reports, globalization, absolute indexes, relative indexes, economy, balance, financial results

In the article the analysis of financial stability of companies in conditions of globalization of economy is exposed from data of their financial reports. In the article the improved model of analysis of financial stability of companies in conditions of globalization of economy is exposed from data of their financial reports. On base of specifying current world method of analysis of financial stability companies from data of financial reports the conception of classification of global indexes of financial stability of enterprises is developed in the conditions of modern informative economy. In this article the method determination of global absolute and relative indexes of the financial stability at companies are showed according data of financial reports (of Ukrainian form No. 1 “Balance”, form No. 2 “Report about financial results”). In this article the organization of analysis of financial stability at companies in conditions of globalization of economy are showed according data of financial reports.



PRACTICAL USE OF INNOVATIVE METHODS OF INSTRUCTION FOR PERSONNEL TRAINING FROM THE POINT OF VIEW OF HUMAN CAPITAL DEVELOPMENT IN ORGANISATIONS

Doctoral student Irina Lando

University of Latvia

Aspazijas bulv. 5, Riga, LV-1050, Latvia

Phone: +371 29491515

E-mail: info@lando.lv; website: www.lando.lv

Keywords: personnel training, adult education, speed reading, innovative teaching methods

Human Resource Management has recently encountered a number of new tendencies. Among them the most important is a transition of requirements from narrow expertise to the skillset that allows employees to be flexible and able to adapt to the new work environment and job requirements. Technological progress also requires mobility, foreign language skills and ability to continuously learn and acquire new skills. The EU countries have experienced new conditions as a result of the economic crisis of 2007-2008. The new economic environment required employers at all levels to reconsider their attitudes towards personnel. Employers cannot afford to maintain an accelerated numbers of staff and are compelled to reduce numbers of employees. By the end of 2011, the rate of unemployment has reached 13% in Latvia and has essentially raised competition in the labour market. As a result of the recent economic crisis, many employees have lost their jobs. At the same time, those who managed to stay employed, suffered through cancelled bonuses, salary reductions, prolonged working hours and an increase in the workload. The new economic situation requires employees to be able to acquire new skills quickly, adapt to the changing situations and constantly confirm their competitiveness. This requires strong motivation from each employee, however maintaining high morale at workplace becomes difficult due to the lower compensation levels. According to the author, it is crucial to consider opportunities of using all skillset and potential of the employees. Those who have kept workplaces after major layoffs are compelled to work under constant pressure. These employees became responsible for the jobs previously performed by their former colleagues. As a result, these employees require effective methods that would allow them working faster and more effectively.

Current article is devoted to the description of the personnel training methods that provide the maximal results within minimal timeframes. Many articles are dedicated to the subject of what employees need to learn, however effective learning techniques have not been widely spread until now. The author suggests conducting speed reading and speed memorising trainings before any professional personnel trainings. This approach allows achieving higher efficiencies from the professional trainings and work results within short time periods. For example, the speed reading techniques training conducted for three hours during a six day course allows increasing the speed and efficiency of information processing in 2-3 times. During the period of 1999-2011 the author conducted a number of corporate trainings in the largest organisations of Latvia and abroad. All results of these trainings were consolidated into reports and questionnaires completed by all trainees, both before and after the testing. It has been confirmed that during these trainings each trainee increased the speed and accuracy of information processing in 2-3 times without additional pressure. It looks as if a person starts thinking 2-3 times faster. Imagine, if you come to the office to realise you can think three times faster than your colleagues! You start noticing that people talk slowly. Did you become smarter? No, you have just acquired new skills and abilities. It should be noted that the efficiency and effectiveness of the training increases significantly when a team or a department are trained together. The importance of this work increases as a result of continuous outflow of human capital from Latvia to the foreign countries. From the state economic efficiency point, it would be more beneficial to export highly skilled human capital, instead of cheap labour. At the moment, Latvia possesses great opportunities for establishing a system of personnel speed re-training techniques and its successful adaptation to the new economic conditions.



**EMPIRICAL ANALYSIS OF THE INFLUENCE OF REGULATORY
CIRCUMSTANCES ON PRODUCT LIFECYCLE MANAGEMENT
OPTIONS FOR THE PHARMACEUTICAL INDUSTRY
IN GERMANY**

*Doctoral student **Moritz Lang***

Hochschule Kufstein, University of Applied Sciences

Andreas Hofer Strasse 7, 6330 Kufstein, Austria

Phone: +49 (0)176 628 76313

E-mail: m.lang@crown-online.com

Keywords: prescription drugs (Rx), Arzneimittel-Rabattverträge, active pharmaceutical ingredient (API), Mehrkostenregelung

The revenues of the pharmaceutical industry in Germany are mostly generated with prescription drugs (Rx). Simultaneously it should be considered that hardly any incident is as relevant for the success of a researched-based pharmaceutical company as the expiry of a patent, of a strong-selling product. Therefore it is a strategically significant issue to integrate all Product Lifecycle Management (PLM) options systematically in the company's strategy. Due to the 'Arzneimittel-Rabattverträge' the patent expiry became increasingly important while many generic PLM strategies lost their effectiveness. On January the 1st 2011 the 'Mehrkostenregelung' was established which gives customers the possibility to buy a branded pharmaceutical instead of the generic substitute, which is contracted by their 'Gesetzliche Krankenversicherung' (GKV), if they accept to pay a priori and disclaim the refunding of the additional costs of the branded pharmaceutical. This way a pharmaceutical company could theoretically generate revenues in the GKV segment after the patent expired. This paper provides an empirically supported analysis of the impact of the Arzneimittel-Rabattverträge as well as the Mehrkostenregelung on product-based turnovers. At this the data will be analyzed and interpreted against the background of strategy development in the pharmaceutical industry.



New Challenges of Economic and Business Development – 2012

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INVESTMENT DECISIONS IN EMERGING MARKETS FROM BEHAVIOURAL THEORY'S POINT OF VIEW

*Doctoral student **Mariya Lebedeva, M.A.**
University of Applied Sciences Kufstein Forschungs GmbH
Andreas Hofer Str. 7, 6330 Kufstein, Austria
Phone: +43 5372 71819 201
E-mail: mariya.lebedeva@fh-kufstein.ac.at*

Keywords: investment decision-making, behavioural theory, factors, uncertainty

This paper explores foreign direct investment decision-making processes in the uncertain and foreign context of Russia from behavioural theory's point of view. In regard to this, different factors play an important role by investment decision-making in a context of uncertainty and risks. This research aims to investigate the influence of some non-economic factors on investment decisions. As a result a factor model presenting the impact of such factors will be summarized. Findings of this investigation are based on theoretical review as well as on empirical investigation. In closing the paper suggests directions for future academic research and presents practical managerial applications.



CONSUMPTION BEHAVIOR IN FAMILIES WITH YOUNG CHILDREN IN LATVIA

*Doctoral student **Elina Lice**
University of Latvia
Aspazijas bulv. 5, Riga, LV-1050, Latvia
E-mail: elina.lice@lu.lv*

Keywords: family life cycle; consumption behavior; sustainable consumption; household

Sustainable development has been recognised internationally and nationally as present and future development way. One of the sustainable development approaches is analysed from Consumption behavior change perspective.

In this paper I focus on the household level and how changes in household demographics affect family consumption behavior in sustainable development context.

Family (household) life cycle stage among marketing and sociology scientists has been admitted as useful indicator of consumer behavior. Family (household) needs, attitudes and values regarding to purchasing priorities are influenced by family lifecycle stage – single household, couple, having children or not, retired household, e.g. and changes there. This concept is used in paper with focus on how the family life stage – couple and having children till school age influence family consumption behavior in sustainable development context, investigating:

- what are the purchasing priorities,
- attitudes and values,
- and what is children influence on family consumption behavior.

As research methodology were used 30 interviews in- depth in 4 different case areas regarding to Interreg Programme Foodweb project Coastal territories in Latvia – Ventspils city, Liepaja city, Pāvilosta county and Salacgrīva county. The qualitative data from interviews were supplemented with data from Central Statistical Bureau of Latvia, representing the average consumption in families with children till school age.

Taking into account the assumption that families with young children are big purchasers of healthy food products and pay a big attention on green food consumption issues, more detailed regarding to attitudes and values aspects in consumer behavior, were asked questions about food consumption – how does family choose food products and how well are they informed about sustainable and healthy food consumption. The questions were asked for families also how the children influence their consumption priorities, and what has changed in consumption within the changes in family from not having children and having. The answers were analysed in sustainable consumption development context.



New Challenges of Economic and Business Development – 2012

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ESTIMATING POTENTIAL IN EXPORT OF FINANCIAL SERVICES

Marija Lindemane

BA School of Business and Finance

K.Valdemāra iela 161, Riga, LV-1013, Latvia

Phone: +371 20044875

E-mail: mlindemane@netscape.net

Keywords: trade potential, export of financial services, gravity model

The purpose of the current research is developing tools which help to estimate country's financial industry potential in export of financial services. For achieving this purpose expert and econometric methods were used. Statistical dates for potential estimation were taken from such public sources as UNCTAD Services Trade Database, World Databank and World Competitiveness Report. In the result of this research one has created gravity model of financial services export. Financial industry of Latvia was taken as an example for estimating potential in export of financial services.



**A STRUCTURAL APPROACH FOR ONLINE SURVEYS –
VALIDATE, MOTIVATE AND PROVIDE TRUST**

Knut Linke

University of Latvia

Raiņa bulv. 19, Riga, LV-1586, Latvia

c/o Brandenburgerstr. 29, 31789 Hameln, Germany

Phones: +49/5151/9199405, +49/176/21100697

E-mail: knutlinke@gmail.com

Keywords: empirical research, online questionnaires, user participation, computer mediated interaction

The article targets the issues which are rising in the environment of online interaction by proceeding information requests to an anonymous audience. The author has as target to understand possible issues during the preceding of online surveys from the organization and participant point of view and to provide solutions in the sector of communication and technical infrastructure to increase the validity from the results of an online survey.

To understand the possible issues in an online survey first the different possibilities for errors are defined through expert interviews with business researchers, scientific specialist and service providers.

With this information users are interviewed to understand the perspective of participants and the motivation for signups and providing of personal information. For this the drivers for the providing of truth and the reasons for the trust in providing that information are defined.

With the gathered information the drivers for a valid interaction are defined. To support the validation directly by the usage from the questionnaire interface several state of the art technics are introduced to avoid the inserting of non-valid data. To support the participant during his interaction approaches for the motivation and for the creation of trust are provided, including best practices from professional providers of survey tools.

Out of the collected and aggregated information as also from the provided best practices and possible solutions for the setup from the infrastructure of online survey platforms, a technical and process oriented technical framework is provided to increase the quality of online questionnaires.



INVESTIGATION OF THE OPPORTUNITIES OF STUDY PROGRAMME QUALITY ASSESSMENT

Agnese Līgotne

Academic Department

University of Latvia

Raiņa bulv. 19, Riga, LV-1586, Latvia

E-mail: agnese.ligotne@lu.lv

Keywords: study programme quality, assessment criteria, opportunities of assessment, significance of criteria, expert surveys

In the world to assess the higher education quality there are used different methodologies, assessment criteria and various indicators, as a result of which there are ranged higher education institutions and study programmes, however, the results of them cannot be perceived unambiguously. It is clear that the assessment results which higher education institution or study programme will be better or worse is very often detected by the choice of criteria. It is very difficult to find objective criteria which could be used universally for all study programme types and allowed to assess them far and wide. Because of that besides the ranging of higher education institutions there are still made investigations and worked out methodologies to assess study programme quality and improvement.

In the democratic society a person has the right to have different opinion; therefore there is not a single “correct” quality definition. Quality can mean different to everybody. Mostly everybody understands intuitively what the word ‘quality’ means, but it is hard to ground and explain. Probably the different understandings about the higher education quality create doubt in the interested sides about the higher education quality itself. So, one of the research tasks is to clear out how different are the understandings of two main interested sides (students and higher education administrators) about higher education quality and its major criteria.

The aim of the research made is by doing expert survey and using The Analytic Hierarchy Process (AHP) method to investigate the opportunities of study programme quality assessment to form the methodological basis of study programme assessment, as well as to clear out main higher education experts’ (students and higher education administrators) understanding of study programme quality. In the research the experts evaluated 24 criteria which characterise both the quality of study programme offer and study programme implementation. Experts’ task was to determine importance coefficients for criteria in study programme quality assessment.



New Challenges of Economic and Business Development – 2012

May 10 - 12, 2012, Riga, University of Latvia

DEVELOPMENT FINANCE INSTITUTIONS: ROLE IN RUSSIAN ECONOMICS MODERNIZATION

Tatiana Maidan

Saint Petersburg State University of Service and Economics

Sedova ul., 55/1, Saint Petersburg, Russia

Phone: +7(812) 650 65 63

E-mails: finansii@pisem.net, tatyana_maidan@mail.ru

Keywords: development finance institutions, modernization, Russian economics

Russian economics modernization encounters several problems. First, financial, industrial-technological and cadre infrastructure is in undeveloped state. This impedes the formation the steady innovation chains “basic research – the applied scientific research and experimental-design developments – the commercial technologies”. Secondly, the investment needs of the economy considerably exceed the volume of the long-term borrowed resources, which proposes domestic particular financial sector. Thirdly, the Russian producers outgoing on the international markets be situated in the unequal competency conditions in comparison with the exporters from other countries.

To remove these problems capably the formation of the effective system of the development finance institutions. Therefore state undertook decisive steps toward the formation of this system in recent years. The development finance institutions – these are the specialized state (quasi-state) corporations, whose activity is directed toward the elimination “of failures of market”, which restrain the economic and social development of the country.

The development finance institutions solve, thus, four basic tasks:

- overcoming failures of market in the sphere of innovations (“quasis-innovation”);
- the elimination of institutional failures (forming of the absent, but necessary segments of market);
- the development of economic (power engineering, transport, other communications) and social infrastructure;
- the equalizing of the essential regional unbalances of development.

The development finance institutions in Russia have some shortcomings. The system of the development finance institutions created up to the present moment in Russia is enormous and cumbersome. Majorities of them possess the extremely insignificant scales of activity. Their ineffectiveness and opacity is one additional drawback in the domestic development finance institutions. Furthermore, for the development finance institutions in Russia is characteristic the absence of coordination. In spite of variety in the country of development finance institutions, the economy still is developed due to the export of raw material, and situation is not assembled to change. Practically all development finance institutions existing in Russia are “money bags”, which distribute the financial resources between “priority” projects.



SIDE EFFECTS OF CORPORATE CULTURE IN TECHNICAL SERVICES FIRMS ON THE EMPLOYEE TYPOLOGY

– Leadership Goes Beyond Management –

Doctoral student Anton Mandl

*University of Latvia; FH Kufstein Forschungs GmbH
Im Geeren 105, D – 60433 Frankfurt am Main, Germany*

Phone: +49 151 58589418

E-mail: anton_mandl@msn.com

Keywords: Corporate Culture, motivation, employee profiles

In times of the growing globalization and the change to knowledge based services professions together with a change of social values, companies and their employees have to face different demands than before. The pressure on employees rises, because they need higher qualifications, always needing to learn and adapt to the quickly changing structures. Corporate Culture is a very important instrument in this transformation process. It guide employees through but it can on the other hand evoke frustration. This permanent frustration can lead to occupational diseases as there are for example physiological symptoms as lung and skin diseases or even worse mental diseases as the well known burn-out syndrome. In technical based services firms, corporate culture is mainly focused on the zero tolerance solution of a technical problem, as this is the main mission of these services firms. Employees are humans and will not be able to function without any tolerance as they are supposed to. Negative side effects can be varying as mentioned before from lack of motivation to the beginning of a serious disease. In public technical services there are also positive side effects as the public sector is not focused on maximizing the profit, but to perform well within the borders of public necessity. Employees can be categorized in 4 different main types of employee profiles. This simple model of profiling people points out the different behavior schemes of people. So does every type of employee react in the same negative situation derived from corporate culture like his college, his supervisor or the whole team? Is there a relation between the reaction of the type of employee and the type of situation, in this case a negative side effect of the corporate culture? For example, if the management says, that the working days from now on end at 8 pm, does every employee starts to rebel against it, as the longer working times are a negative side effect, or is it at first the icebergs and problem child's. But on the other hand are these two the first, who are likely to get ill from this new directive or is it the stars and backbones that always get the short end of the stick. The practical benefit I want gain is to find out, what type of employee is more likely to be affected from the negative side effects by corporate culture and how this negative side effect is compensated by finding the right team composition. If teams are composed correctly, we can let our working day end at 8 pm without facing unmotivated fellows and in the worst case upcoming occupational diseases. To bring the formulated problem statement to a success, I need to describe, what types of corporate culture in technical based services firms exist and focus on their positive and negative side effects.



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AN INTEGRATIVE MODEL OF THE INNOVATION PROCESS IN PUBLIC ORGANIZATIONS

Guillermo Maraver-Tarifa

*Faculty of Economic and Management
University of Granada
Campus de Cartuja, s/n. 18071 Granada, Spain
Phone: +34 958.242340
E-mail: gmaraver@ugr.es*

Angeles Muñoz-Fernandez

*Faculty of Economic and Management
University of Granada
Campus de Cartuja, s/n. 18071 Granada, Spain
E-mail: angeles@ugr.es*

Rocio Llamas-Sanchez

*Faculty of Economic and Management
University of Granada
Campus de Cartuja, s/n. 18071 Granada, Spain
E-mail: rllamas@ugr.es*

Keywords: Innovation, Local Agenda 21, sustainable development, empowerment, institutional theory, institutional pressures

The main research question guiding this study is how and why innovation in the area of sustainable development begins, develops, is implemented, and (perhaps) ends in a municipality. It requires identifying both the external and the internal factors that influence the adoption and the implementation of a process of municipal innovation.

To achieve this, we analyzed, using 13 case studies, the particular situation regarding sustainable development in Andalusia (Spain) and the implementation of the Local Agenda 21 in the different municipalities that joined City 21 Program. We focus first on the research design, secondly on the data collection, and thirdly on the data analysis.

We hope that the proposed model helps town councils to develop management by and for sustainability, according to the repercussions that their decisions can have for future generations. The main contribution is the integrative model that we propose, defining a set of variables that influence an innovation process, the implementation of the LA21.



VOCATIONAL EDUCATIONAL TRAINING (VET) IN EMERGING MARKETS. THE MARKET-ORIENTED AND INNOVATIVE APPROACH TO INTERNATIONALIZATION OF EDUCATIONAL SERVICES

Andrea Mewaldt

CEO Open Europe Consulting

Hollerstr. 7B, D-80995 München, Germany

Phone: +40 89 23076780

E-mail: mewaldt@open-europe-consulting.de

Keywords: Globalization, strategic management, export, vocational educational training (VET)

With view to globalization industries also the suppliers need to invest in emerging markets like Central and Eastern Europe, Russia, South Africa, China or India. Abroad, they face a tremendous lack of well-trained workers below the management level, mainly in technical or commercial vocations.

Internationally unique is that in the German speaking countries (A, CH, D) the vocational training is provided by the public-private co-management of employers and public training institutions (Dual System).

Even when the quality of this co-management system is highly acknowledged, abroad the Dual System cannot be installed in the same manner as in the home markets.

As we can see by studies of the export of German education services is underdeveloped compared to the Anglo-Saxon educational systems [1].

The main focus of this research is to explore the best practice for the export of education services with regard to vocational education training (VET).

The research follows Kellner's research method of "Market-Oriented Innovation Management" [2]. Regarding strategic management, export management, international marketing, business development and other related knowledge fields the requirements for the export of education will be compiled to the comprehensive strategic model for the export of education.

The market-oriented and innovative model will consist of three stages: Strategic planning, market entry and market penetration being presented in this paper. They are based on researcher's field experience and the described requirements and characteristics drawn from the literature review.

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DECISION EFFICIENCY IN EMPLOYEE SELECTION PROCESSES IN REGARD TO HAPPINESS

*Mag., Doctoral student **Maria Minichmayr***

Faculty of Economics and Management

University of Latvia

Berghamerstrasse 76, 4072 Alkoven, Austria

Phone: +43 676 814 69 085

E-mail: maria_minichmayr@hotmail.com

Keywords: decision, efficiency, employee selection, recruiting, happiness

This research paper will analyze the decision efficiency in employee selection processes in companies in regard to happiness.

Decision making in businesses is a major task of management, both in a strategic and leadership context. Usually, managerial decisions can be characterized as deliberate choices among given alternatives under certain objectives in order to identify the best option under risky and uncertain environments. [1] In employee selection processes in companies similarly certain objectives are valued and decisions among given alternatives are taken accordingly.

In recent years Bruno Frey, Professor of Economics at the University of Zurich, and others are increasingly investigating “Happiness” in economics as a new field of interest in economics and business sciences. [2] According to Frey & Frey Marti employees who are happy in their job are less absent from work, work with more motivation and preciseness and are more productive. [3] The relevance of happiness of individuals at works seems therewith essential for companies.

According to Frey though “... individuals tend to make systematic errors when choosing between alternatives. For example, they often mispredict the utility gained by future consumption. They overestimate the satisfaction they derive from having a higher income in the future, and they underestimate the utility gained from immaterial aspects of life, such as friendship and social relations. As a result of these errors in judgment, they find themselves less satisfied with life than they could be according to their own evaluation.” [2] Especially for the process of employee selection this fact seems to be important to be considered when recruiting people.

The aim of this research paper is to investigate the theories of decision making, employee selection and happiness economics by reviewing existing literature. The question of how far the aspect of happiness is involved in today’s employee selection processes should be analyzed.

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New Challenges of Economic and Business Development – 2012

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DEVELOPMENT ECONOMICS – FROM THE TRADITIONAL APPROACHES TO THE NEW CONCEPTS

Sandrina B. Moreira

*ESCE-IPS, Polytechnic Institute of Setubal
Department of Economics and Management
Campus IPS – Estefanilha, Setubal, Portugal
BRU-UNIDE – Economics Research Center
Phone: + 351 265 709 437
E-mail: sandrina.moreira@esce.ips.pt*

Nuno Crespo

*ISCTE-IUL, Lisbon University Institute
Department of Economics
Av. Forças Armadas, Lisbon, Portugal
BRU-UNIDE – Economics Research Center
E-mail: nuno.crespo@iscte.pt*

Keywords: development, sustainable development, human development, local development, development economics

Development economics centres its analysis on the specific problems of a vast periphery of less developed countries. Its main goal is to find answers to the following question: ‘how can low-income economies in the world today be set on the track of sustained economic development for the immediate goal of reducing poverty and the long-run goal of catching up to the wealth of developed economies?’ (Hayami and Godo, 2005: 2 [1]).

Several answers to this fundamental question have been presented. We survey the central elements that characterize four important theoretical bodies in Development Economics, namely: (i) modernization theories; (ii) dependency theories; (iii) world-system theory; (iv) neoclassical counter-revolution.

However, the “old” notion of economic development, which considers as its main goal the reduction of inequality in terms of per capita income, seems to be insufficient to attain the amplitude and complexity of development problems (Bonete and Filho, 2008 [2]). Therefore, it is not surprising that the notion of development has amplified through the consideration of new dimensions, with the adding of several adjectives to the word “development” – “human” development and “sustainable” development are the most frequently mentioned.

The main objective of this paper is to produce a concise survey of this vast range of contributions frequently analyzed in a separate way. Together with the contributions of the traditional development economics, these new development concepts – human, local and sustainable development – offer a theoretical wealth which, in their globality, allow a more adequate understanding of the complex and multi-dimensional phenomenon of development.

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New Challenges of Economic and Business Development – 2012

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COMPOSITE INDICATORS OF DEVELOPMENT – THE IMPORTANCE OF THE WEIGHTS

Sandrina B. Moreira

*ESCE-IPS, Polytechnic Institute of Setubal, Department of Economics and Management
Campus IPS – Estefanilha, Setubal, Portugal
BRU-UNIDE – Economics Research Center
Phone: + 351 265 709 437
E-mail: sandrina.moreira@esce.ips.pt*

Nádia Simões

*ISCTE-IUL, Lisbon University Institute, Department of Economics
Av. Forças Armadas, Lisbon, Portugal
BRU-UNIDE – Economics Research Center
E-mail: nadia.simoes@iscte.pt*

Nuno Crespo

*ISCTE-IUL, Lisbon University Institute, Department of Economics
Av. Forças Armadas, Lisbon, Portugal
BRU-UNIDE – Economics Research Center
E-mail: nuno.crespo@iscte.pt*

Keywords: composite indicators, development, dimensional weights

Measuring countries' levels of development is one of the most complex tasks in economics. The recognized multidimensionality of the phenomenon has increasingly led to the use of composite indicators in order to overcome the limitations usually identified in such measures as the income per capita (Bandura, 2008 [1]; Saisana, 2008 [2]). Using indicators such as this to assess development raises two crucial issues. On the one hand, one needs to identify the dimensions of development for each indicator as well as the content of each dimension. On the other hand, one also needs to assign weights to each dimension in order to have an aggregated indicator.

This second issue has drawn little attention in the literature, and usually equal weights are attributed to all the dimensions of a given indicator. In the absence of any systematic analysis of their correspondence to the public perception regarding the importance of each dimension of development, these weights are arbitrarily fixed. This is so despite the fact that individuals are the ultimate beneficiaries of countries' development. The present paper seeks to close this gap in the literature, discussing in an explicit manner, the importance of the weights of each dimension of development.

Using a public-opinion survey conducted in Portugal, we evaluate the importance of the main dimensions of development and examine if the dimensional weights depend on individual characteristics of the respondents, such as gender, age, or educational level. The evidence suggests that both education and health regularly stand out as the most highly-rated factors.

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SYSTEMATIZATION OF LIFE CYCLE APPROACHES

Doctoral student Hans-Peter Oehl

University of Latvia; University of Applied Science, Kufstein, Austria

Liechtensteinstrasse 57/6, 1090 Wien, Austria

Phone: +43 664 380 1121

E-mail: hans-peter.oehl@aon.at

Keywords: life cycle approach; organizational development; organizational change; organizational growth and decline

Life cycle approaches describe and explain changes in organizational entities (e.g. firms) between their conception and termination. Life cycle theory assumes that development is governed or mediated by underlying natural, logic or institutional rules; even if the impact of internal and external influences is not denied [1] More than 100 life cycle models have been published during the last 50 years. [2-6] These models differ in many respects, in general they analyse the opposite forces of growth (success) and decline (crisis) or both. [7, 8] Some of these models are more conceptual and holistic (e.g. whole life cycle; range from small to large); others are more empirical and very specific (e.g. small number of selected firms; mainly cross sectional, few longitudinal).

My assumption is that life cycle approaches allow useful insights for change and crisis management. Prerequisite for generic statements is a systematic review and evaluation of typical approaches. This paper provides a systematic overview of the range of life cycle models.

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**FACTORS INFLUENCING PUBLIC PARTICIPATION
IN ENVIRONMENTAL GOVERNANCE:
KEY CONCLUSIONS FROM DESK RESEARCH
AND ASSESSMENT OF SITUATION IN LATVIA**

Doctoral student Alda Ozola
Environmental management department
Faculty of Economics and Management
University of Latvia
Raiņa bulv. 19, Riga, LV-1919, Latvia
E-mail: alda@lu.lv

Keywords: environmental governance, non-governmental organisations, public participation factors

Environmental non-governmental organisations (NGOs) are seen as one of the interest groups in environmental governance, yet they are far from being a homogenous group. Environmental NGOs in Latvia and across the world are wide spectrum groups consisting of local activists, institutionalised NGOs and networks, including virtual networks. Considering the diversity of groups in environmental movement, their contribution to environmental governance is also diverse and sometimes even contradictory. At the same time the activity in dealing with certain issues can be varying in its intensity i.e. there has been high NGO activity in debating forest management issues in Latvia, whereas there is rather low activity in shaping energy policy even though it has substantial environmental angle.

Why environmental groups demonstrate high activity in dealing with some issues whereas there is hardly any interest in other issues despite their significance from environmental governance point of view? Author attempts to look into underlying causes that determine NGO activity and broader public participation. Author uses desk research, case study research, participatory research and interviews in this paper to test assumptions and arrive to conclusions on which are most important factors that influence public participation.

Based on the results of desk research, author divides all factors in two groups: pre-conditions for participation and enabling environment. For Latvia pre-conditions are factors that are rather stable or change slowly: post-soviet context, trust in public institutions, rule of law, dominant values in society, viable civil society. In other group of factors author includes those that can be influenced i.e. governance structures (windows of opportunities for participation and governance processes open to NGOs), institutions to facilitate public participation, public opinion about priority issues, resources available to NGOs. Author concludes that all those factors are valid; however there can be also some other factors listed that have ad-hoc nature, such as personal convictions, connections with other interest groups, and some others.



KNOWLEDGE SHARING AND ORGANIZATIONAL LEARNING AS FACTORS OF ORGANIZATION EFFECTIVENESS: SOCIAL PSYCHOLOGICAL APPROACH

*Mg. psych., Doctorate student **Elena Ozola***
Daugavpils University
Vienības iela 13, Daugavpils, LV-5400, Latvia
Phone: +371-29786588
E-mail: ozolaelena@inbox.lv

*MBA, Doctorate student **Andris Ozols***
Daugavpils University
Vienības iela 13, Daugavpils, LV-5400, Latvia
Phone: +371-26765781
E-mail: andris.a.ozols@gmail.com

Keywords: knowledge-based economy, knowledge, knowledge sharing, learning organization

In conditions of the information society and knowledge-based economy the knowledge acquires the status of an economical object. An intellectual capital becomes the main form of assets and sometimes is evaluated higher than financial and material assets. From the social-psychological point of view the intellectual capital in modern economy has a double nature, because knowledge is considered as goods and, at the same time, it is the inalienable value [1], [2].

The analysis of the main approaches to definitions and classification of the concept “knowledge” as a social psychological phenomenon showed that the knowledge is irreducible to the information [3]. There are a wide range of empirical data which confirm the influence of knowledge sharing on the results of activity of an organization. The influence of knowledge sharing and organizational learning on the effectiveness of organization activity is mediated by the range of social psychological phenomena. In modern economic conditions the competitive advantages are achieved by those organizations which are constantly transforming on the base of their own experience, in other words, by the learning organizations.

The aim of the paper is to study the major psychological factors which turn an organization into the learning organization and to research the social psychological phenomena which mediate the influence of knowledge sharing and organizational learning on the organization effectiveness [4].

The results of the research may be helpful to managers and administrators in using the past experience of organizations which will result in the effective experience exchange and open the new possibilities for the strategic planning and creation of the effective competitive organization.

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MATERIAL STRATIFICATION IN DIFFERENT TYPES OF HOUSEHOLDS

Rita Ozolina

University of Latvia

Raiņa bulv. 19, Riga, LV-1586, Latvia

Phone: +371 26132277

E-mail: ritaozolina@navigators.lv

Keywords: at- risk-of-poverty rate, material deprivation

In 2005 Central Statistics Bureau (CSB) started a survey “Community statistics of income and living conditions” (EU-SILC). Every year CSB produces data collections “Income and living conditions in Latvia”.

The term “poverty” is not defined in the statute of our country, however it is defined what a poor person and a low-income person is.

Previously author has done a research about economic stress, forced refusal of using durable household goods, insufficient household and living conditions, and how they all display material insecurity in different demographical types of households in regions of Latvia.

Household and living conditions have become worse in general. Economic stress has increased but the rising of the household conditions was not significant so households relatively more were forced to refuse an acquisition of durable household goods and decline using them. Household conditions in regions have become worse too.

Within the framework of this research author is analyzing material stratification in different types of households both in Latvia in general and in different regions of Latvia in recent years.



New Challenges of Economic and Business Development – 2012

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TRIPLE HELIX MODEL OF INNOVATIVE DEVELOPMENT: ROLE OF LOCAL GOVERNMENTS IN LATVIAN REGIONS

MBA, Doctorate student Andris Ozols
Daugavpils University
Vienības iela 13, Daugavpils, LV-5400, Latvia
Phone: +371 26765781
E-mail: andris.a.ozols@gmail.com

Dr.oec., Assoc. Professor Jānis Eglītis
Rector of Ventspils University College
Inženieru iela 101a, Ventspils, LV-3601, Latvia
Phone: +371 29409428
E-mail: janise@venta.lv

Mg. psych., Doctorate student Elena Ozola
Daugavpils University
Vienības iela 13, Daugavpils, LV-5400, Latvia
Phone: +371 29786588
E-mail: ozolaelena@inbox.lv

Keywords: innovation, Triple Helix model, local government, Latvian regions

Globalization is a significant force reorganizing the world's economy through new knowledge and technology [1]. Thus, the production of innovations becomes vital for the economies that want to keep up with the rapidly changing world. According to J.Schumpeter, one of the major targets of innovations is to get the oligopolistic rent over the market profit, and the government is one of the main stakeholders of this rent [2]. A report by Innovation Union Scoreboard (IUS) revealed that in 2010 Latvia ranked 27th in the EU in terms of innovation [3] and this gives cause for concern. A Triple Helix (TH) model of interaction among universities (U), industry (I) and government (G) was worked out by H.Etzkowitz and L.Leydesdorff in mid 1990s. According to this model an innovation can be considered as an outcome of interaction among different social coordination mechanisms – markets, knowledge production, and (public or private) governance. Three selection environments or functions are specified in the model: (1) wealth generation (industry), (2) novelty production (academia), and (3) public control (government) [4].

A single aggregated indicator of economic effect of TH model has not yet been created, therefore, currently various components are investigated and measured separately and then compared to identify the linear and nonlinear interaction and patterns. To measure the U-component they apply the principles of bibliometrics and scientometrics and related metering parameters – citation analysis, number of publications in refereed journals, citation indices, the number of patent applications, the number of patents granted, etc. To measure the I-component (understood as a technology business that focuses on the introduction of high technology products in the industry) they use economic measurement indicators, such as the number of high-tech enterprises, the volume of output of their new products, number of employees, their productivity, etc. At the junction of U and I components they measure the number of high-tech enterprises and start-ups, including university spin-offs created on the basis of new patents or know-how, and evaluate their performance with economic indicators. The G-component makes decisions on national and local level that affect the statistics of the first two.

The aim of the research is to define the current status of the Latvian local G-component in TH triadic structure and to find the points affecting the growth, which can bring the maximum synergistic effect with minimal investments.

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REGIONAL DEVELOPMENT AND CONVERGENCE: ARE INNOVATIONS SUPPORTING THESE PROCESSES?

Tiiu Paas

*Faculty of Economics and Business Administration
University of Tartu, Estonia
E-mail: tiiu.paas@ut.ee*

Keywords: regional development, convergence, innovation, Baltic States

The paper focuses on examining the relationship between regional innovation and economic development in the EU countries and regions. The theoretical framework of the study relies on economic growth and regional innovation models focusing on the research questions what the role of innovations in regional economic growth and convergence processes is and how to quantitatively assess regional innovations and their relation to economic growth and development.

The empirical part of the study bases on the regional GDP pc and innovation indicators on the EU-27 NUTS2 level regions. In order to elaborate composite indicators of regional innovation performance we implement principal component factor analysis. Based on the selected set of initial innovation indicators for the 262 EU NUTS2 level regions and using the principal components factor analysis method, three composite indicators of regional innovation performance are extracted. They explain around 80 % of the variation of the initial innovation indicators. Based on these aggregated innovation indicators we estimated regional development (measured by GDP pc) and regional convergence models having composite indicators of regional innovation performance as explanatory variables; thus, examining the role of innovations in regional development and growth.

The preliminary research results show that around 60% of variability of regional GDP per capita is explained by composite indicators of regional innovation performance and additional 20% are country specific factors. Estimating convergence equations, we noticed that regional innovations tend to increase inter-regional differences, at least during the short-run period. Thus, if regional income convergence is a policy target, additional policy measures beside innovation activities should be effectively implemented.

According to the Eurostat regional system, all three Baltic States are considered as the EU NUTS2 level regions. Therefore we also analysed the relationship between the level of economic development and innovation in the case of the Baltic States as the EU NUTS2 level regions. The results of the regression analysis show that actual level of economic development overcame the so-called potential level around 57% in the case of Estonia and 43% in the case of Latvia and Lithuania at the end of the economic boom (2007). Thus, it was predictable that all three Baltic States had remarkable preconditions for deep recession. The global economic crisis that started in 2007 only boosted this predictable recession and pushed these countries for serious structural reforms and strong restructuring their economies preparing them for adjustment for possible long lasting global economic turbulences.



**MANAGEMENT OF CLIENTS' PARTICIPATION
IN THE COPRODUCTION OF PUBLIC SERVICES:
THE SELECTION OF CLIENTS**

Evandzelina Petukiene

Siauliai University

Vilniaus st. 88, Siauliai, LT-76285, Lithuania

Phone: +370 69872454

Milda Damkuvienė

Siauliai University

Vilniaus st. 88, Siauliai, LT-76285, Lithuania

E-mail: milda.d@smf.su.lt

Keywords: selection of clients, coproduction, management of participation of clients, public services, Lithuanian elderships

Customer participation in the coproduction of services is recognised as a topical subject of scholarly research in both public and private sectors and also as a concept erasing the boundary between market-based logics of development and traditional theories of public administration. The article introduces the relevant sphere of marketing researches – management of the clients' participation in the coproduction of services. Management of participation in the coproduction of services is conceptualised as the unity of separate but interrelated activities. The article aims the main attention to the one of activities of participation management – the selection of clients. The selection of clients is the obligatory management activity in the active participation of clients in the joint (together with eldership employees) coproduction of services. The object – selection of clients – is analysed from interdisciplinary approach, i.e. from perspectives of services' marketing and public management. The article defines the selection of clients as identification of potential customers' characteristics, possessed resources necessary for performance of roles in services and information of clients about services that require coproduction and about specifications of roles to be performed in them. Therefore, the selection is necessary activity for the participation management in order to attain active, i.e. mutually beneficial participation. The article introduces aids for the selection of clients, identified by the qualitative research, applied in real practice in Lithuanian elderships. Not all identified selection aids have an equal impact on the activeness of the clients' participation; therefore the article introduces results of the quantitative research: the rate of selection aids according to the impact strength on participation.



New Challenges of Economic and Business Development – 2012

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RISK-RATIOS AND THEIR RELEVANCE FOR FINANCING REAL ESTATES

Doctoral student Reimar Pfalz-Liebert, M.A.

Faculty of Economics and Management

University of Latvia

Vaterstettener str. 19, 85540 Ottendichl, Germany

E-mail: plc_rem_fm@yahoo.com

Keywords: Subprime Mortgage Crisis, Financing, Risk-Measurement

The last and still ongoing financial crisis also known as Subprime Mortgage Crisis, triggered by a dramatic rise in mortgage delinquencies in the USA, led to the lost of homes for more than 4 million US families in cause of foreclosures. Another 4.5 million households are still (end of 2010) in a foreclosure process [1, p. XV]. Huge AAA-rated banks as Lehmann Brothers had to declare their bankruptcy or got billions of Dollars / Euros to survive or they were nationalized. Countries as Island and Greece got massive financial problems, which are leading them nearly to a governmental bankruptcy. All these things happened because at first U.S. credit grantors and users did not realized their risks in financing real estates with subprime and adjustable rate mortgages. In addition the securitization of the credit risks and the worldwide allocation of the high risky products made this crunch, which was created in the USA, to an international crisis.

Poor risk management in the policies of lending money and of securitization of mortgages led doubtless to this disastrous situation. A verification for that assumption is e.g. that the Financial Crisis Inquiry Commission of the US Congress used inside “The Financial Crisis Inquiry Report” from January 2011 the word “RISK” for 1093 times [1].

The paper gives explanations to the following questions:

- How will be measured the risks in financing today?
- How do perform the existing risk measurement tools?
- Which modifications are necessary and possible?
- Which changes will lead to which outcomes?

The aim of the paper is to reveal and to compare different approaches for risk-measurement because different situations need different models of risk measurement and “any model is only as good as its assumptions” [2, p. 31].

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MICROINSURANCE – CHALLENGES FOR RUSSIAN INSURANCE MARKET

Zhanna V. Pisarenko

*Risk Management and Insurance Department
Saint Petersburg State University, Saint Petersburg, Russia
E-mail: Janna12000@yandex.ru*

Keywords: microinsurance, insurance market, voluntary insurance

The purpose of the research is to outline the most difficult segment of the insurance market in Russia – voluntary insurance for farm enterprises, small business and low income households. The extra challenge is to create microinsurance products with the social priority and product distribution possibilities.

Research methods: Interviewing, survey, document analysis.

Data used: first-hand marketing research in V.Novgorod Region, local official data.

The basis is a partnership of the state and private businesses. The target region is Veliky Novgorod oblast. It is situated between two capitals of the country – St. Petersburg and Moscow and very typical for regions which are situated on the West-North of Russia. So the elaborated microinsurance products could be implemented all across the country.

Problem 1. Depopulation (migration to big cities), ageing, social payments reduction. The centre of the region is Veliky Novgorod. 2010 resident population size is 640.6 thousand people including – urban population 446.9 thousand people (69.8% of total number), rural population 193.7 thousand people (30.2%). The outflow of population (mostly in the age 16-24 years) in 2009 was 5.4 thousand people (0.8%).

Problem 2. Agricultural region (share of agriculture in regional GDP 8.6%, in GDP of Russia 3.8%). There are more than 50 thousand personal subsidiary plots, about 1000 farm enterprises. Novgorod region is situated in the area of risk farming. Geographical location is the North-West of Russia, a significant part of the territory is marshland. So they need special insurance products which could be affordable for them and cover their essential risks.

Problem 3. Low income. The average salary across the region is about 400 euro. About 50% lower than in St. Petersburg and Moscow.

Microinsurance programs (both voluntary and obligatory) can improve social protection of the population, help to create affordable insurance programs for rural people and small business, improve availability of financial services (microcredit and microinsurance) and become a part of the state programs on the development and improvement of the region attractiveness. According to preliminary estimation minimal potential market volume for microinsurance is about 11% of current insurance market in Novgorod Region.



**BUDGETING: TRANSITION FROM PRINCIPLES OF THE
GENERAL PLANNING TO PLANNING OF PERSONAL
RESPONSIBILITY FOR RESULTS OF ACTIVITY**

*Ph.D (economics), the Executive Professor **Dmitry Podolyanets***

Chair the finance and the credit

*Saint Petersburg State University of Service and Economy
Kavalergardskaya street 7, Saint Petersburg, 191015, Russia*

Phone: +7 812 560 6563

E-mails: finansii@pisem.net, ir_spbsuse@mail.ru

Keywords: budgeting, the budget, business process, system of budgets

Article is devoted the modern approaches to financial planning (budgeting) at the commercial enterprises.

In work the analysis of business processes of budgeting in the various Russian companies is presented, differences of such processes for small enterprises and the big organisations are defined.

The basic problems is that with enterprise growth monetary streams become less transparent and operated, the forecast of profit of the enterprise becomes difficult. Enterprise development leads to differentiation of administrative functions, the requirement of change of financial planning is not considered.

In article transition from the general planning to individual drawing up of budgets and fastening of responsibility of performance of business processes to certain persons is considered. Such approach to budgeting allows to distribute effectively resources of the enterprise and to carry out the operative analysis of deviations in comparison with planned targets.

The author defines quality indicators which answer about efficiency of use of the material resources of the enterprise and competences the employees responsible for control of business processes.



THE DEPOSITARY POLICY OF THE RUSSIAN BANKS

Dr.oec., Professor Lada A. Podolyanets
Chairwoman of department's finance and credit
Saint Petersburg State University of Service and Economics
191015, St. Sedova, 55 b. 1. Saint Petersburg, Russia
Phone: +7 (812) 560-65-63
E-mail: podolyanets@mail.ru

Keywords: deposits, insurance of contributions, banks

Article is devoted the analysis of deposits of physical persons in commercial banks. In work the operative statistics on volumes and terms of deposits of physical persons, depending on type of banks is presented. The basic problems of a policy of attraction of contributions, characteristic for Russia are revealed and classified. Among the basic problems it is possible to allocate absence in Russia of privileges under taxes at creation of personal reserve funds of physical persons; absence of reliable system of financial institutions for preservation of means, except banks; not optimum system of insurance of contributions of physical persons; domination of large not market state banks in the market of deposits. Comparison with foreign countries is spent. The author considers bank tools on attraction and use of means of physical persons, including urgent deposits, confidential operations, various kinds of contributions taking into account profitableness of securities, the deposits connected with investment and pension funds. In article the analysis of new standard documents of the Central bank and realization of its depositary policy is carried out. The special attention is given agency activity on insurance of contributions of physical persons in commercial banks. The author specifies distinctions in fields of activity of the state and private banks in the depositary market. In article price and not price factors of attraction of deposits in banks are considered.



New Challenges of Economic and Business Development – 2012

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DUAL-CAREER SUPPORT

Doctoral student Katharina Priesner

University of Latvia; University of Applied Sciences Kufstein

Lerchenfelder Gürtel 14/22, 1070 Vienna, Austria

Phone: +43 664 2305849

E-mail: k_priesner@hotmail.com

Keywords: dual-career, expatriates, international assignments

International assignments are a phenomenon that affect a lot of companies throughout the world. Being faced with low employee mobility, one recent research topic is the influence of expatriate spouses on relocation willingness. Seeing that more and more people live in dual-career relationships, the author would like to take a look at the specific situation that dual-career couples face when they go abroad.

Objectives. It is the objective of this paper to evaluate the reasons for on-assignment career support both on the employer and employee/spouse part. This paper should help to clarify why it is in a company's and expatriate's interest to spend resources on such family-friendly policies.

Methods. The author conducts a literature review using books as well as articles from academic journals.

Findings. Based on the research questions, the author comes to the following conclusion:

1. The main challenge for dual-career couples is to find adequate work for two people at the same location.
2. Accompanying partners prefer to do further training compared to actual employment in the host country.
3. Dual-career support is beneficial for the trailing spouse, the expatriate and the employer.

The author sees that the majority of accompanying spouses are faced with troubles when looking for a job in a new location. This is why the author concludes that dual-career support is beneficial for all involved parties, especially in terms of increased employee mobility.

Conclusion. The research paper provides further insight into the situation of accompanying spouses. It is the aim to highlight the situation of dual-career couples on international assignments for future management decisions.



New Challenges of Economic and Business Development – 2012

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THE FUTURE OF THE EU ETS AND IT'S PARTICIPANTS KNOWLEDGE ABOUT IT IN LATVIA

Ilze Prūse

Faculty of Economics and Management

University of Latvia

Zeltrītu iela 4-14, Mārupe, Mārupes nov., LV-2167, Latvia

Phone: +371 26370883

E-mail: Ilze.Pruse@yahoo.com

Keywords: tradable permits' system, European Union Emissions Trading Scheme, auctioning

The European Union Emissions Trading System (EU ETS) is a tradable permits' system promoting reductions of greenhouse gas (GHG) emissions. The EU ETS is operational since 2005, however, starting from 1 January 2013 it will experience significant changes.

Up to 2012 in the EU ETS have participated 79 companies and 1 municipal agency registered in Latvia, but although the total number of participants is small, important to mention that the participants of the EU ETS are Latvia's largest energy companies as well as the most significant producers of cement, glass, bricks, iron and steel etc.

The goal of this paper is to analyse the EU ETS participants in Latvia knowledge of the future of the EU ETS. At the beginning of the paper the current mechanism and requirements of the EU ETS are described with regard to their future changes, including the changes with regard to the initial allocation of allowances and operation of the registry of allowances. Afterwards the importance of these changes to the EU ETS participants in Latvia is explored. Whereas the particular areas of knowledge is analysed using the results of the survey of Latvia's companies participating in the EU ETS (done by the author in 2011; 61% responsiveness). Survey demonstrates that more than 70% of respondents are willing to improve their knowledge about the EU ETS operation post-2012. It is concluded that the EU ETS participants in Latvia knowledge of the future of the EU ETS is very limited and insufficient. That may result in the EU ETS participants in Latvia comparatively worse performance in the EU ETS, including extra costs and lost opportunities for gaining additional profits.



New Challenges of Economic and Business Development – 2012

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SUSTAINABILITY OF PENSION SYSTEM

*Dr.oec., Dr.phys., Associate Professor **Maris Pukis***

University of Latvia

Aspazijas bulv. 5, Riga, LV-1050, Latvia

E-mail: maris@lps.lv

*Doctoral student **Inara Dundure***

Faculty of Economics and Management

University of Latvia

Aspazijas bulv. 5, Riga, LV-1050, Latvia

E-mail: inara.dundure@gmail.com

Keywords: Pension system, Sustainability, Decrease of social budget, Demographics, Income replaceability

The topicality of the research subject. Regardless of the fact that Latvian pension system seems to be advanced and modern, recently we have been questioning sustainability of our pension system. What is the reason?

The discussions have been aroused by the various alarming economic and social processes, like decrease of social budget, economic crisis and breakdown, outflow of population (in particular manpower drain), bad demographics, inhabitants' agedness, illegal national economy and inconsistent pension politics (i.e. together with the frequent change of local government, laws are being amended too often).

Research tasks and objectives. The aim of the paper is research and analyses of the conditions of building a sustainable pension system.

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

- To describe impact of economic and social factors on the sustainability of pension system;
- To analyse and research legislation regulating Latvian pension system.

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

The analytical method is employed for research of the economic and social factors' influence on pension's system sustainability, as well to analyse and study the laws and normative acts regulate Latvian pension system.

Authors use the comparative method for several assignments: analysis of the demography of the European Union, examination of senior income replaceability, study of the Latvian legislation regulating pension system in the context of EU regulations, and others.

It is necessary to recognize and comprehend the historical and political circumstances and law comprehension tendencies that existed during the formation of the pension system, therefore the historical method is made use of as well.

The logically and abstractedly constructive method is employed in order to make forecasts and define the main research results – the conditions of ensuring pension system sustainability that have been detected by the author during the research.



THE STUDENT LOYALTY AS A PART OF HIGHER EDUCATION ORGANIZATION'S INTELLECTUAL CAPITAL

Maris Purgailis

University of Latvia

Aspazijas bulv. 5, Riga, LV-1050, Latvia

Phone: +371 67034733

E-mail: Maris.Purgailis@lu.lv

Kristīne Zaksa

University of Latvia

Aspazijas bulv. 5, Riga, LV-1050, Latvia

Phone: +371 29442656

E-mail: Kristine.Zaksa@lu.lv

Keywords: loyalty, intellectual capital, higher education

Customer relationship management of each organization is not only important from a strategic marketing perspective, to attract new customers, encourage customer loyalty and provide a stable future income, but also customer management plays an important role in the organization's intellectual capital management, which is one of the most essential issues of the contemporary management. [1, 2]

Higher education organization is a typical example of the intelligent organization. Since one of the goals of these organizations is in fact knowledge creation and dissemination and intellectual capital approaches have become very important for these organizations. Their investments in these organizations should mainly be invested in human capital and research. The inputs of these organizations and resources and the outputs are intangibles. [3]

Intellectual capital management plays an important role in customer equity management, where one of the purposes is to improve customer relationship management or customer loyalty. Customer loyalty is one of the most difficult measurable indicators. So far, the higher education organizations, creating intellectual capital assessment indicators, very little attention have paid to the depth of customer relations and customer relationship quality measurement. However, it should be noted that one of the latest intellectual organizations and institutions including the HEI management concepts are based on the fact that the service quality of the results are very closely related to the provision of client processes [4].

The paper aims to analyze the intellectual capital at higher education organization and emphasizes the role of student loyalty in it. The approach taken is theoretical and based on the combination of three different areas: intellectual capital management, customer relationship management, higher education institution management. The contribution of this paper is an overview of the empirical research previously conducted. Author points out possible future lines of research in this area.

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PROJECT COST-BENEFIT ANALYSIS: AN IMPROVEMENT TO CONSTRUCTION PROJECT MANAGEMENT PROCESS

Emīls Pūlmanis

*State Regional Development Agency
Elizabetes iela 19, Riga, LV-1050
Phone: +371 26896748
E-mail: Emils.Pulmanis@gmail.com*

Silvija Bruņa

*Faculty of Economics and Management
University of Latvia
Aspazijas bulv. 5, Riga, LV-1050, Latvia
Phone: +371 29177161
E-mail: Silvija.Bruna@gmail.com*

Keywords: cost-benefit analysis, project management process

In perspective, the importance of attention to application of financial analysis results in the project management process of project financing, improving its quality, and economic interpretation of the analytical indicators, is growing.

Analysis of the progress of financial volume of concluded contracts over 2010, separated by dimension codes, reveals that the greatest progress belongs to the field of construction, where contracts for 374.4 million euro were concluded in 2010.

The purpose of the article is to analyze construction and infrastructure projects submitted for financing from the European Union structural fund resources, their cost-benefit analysis (CBA), and to assess the financial, social and economic indicators planned in the project submission against the actual post-project implementation indicators of the project life cycle.

During the analysis of project applications submitted by municipalities, the authors carried out an in-depth assessment and recalculation of the CBA of infrastructure projects. The analysis was based on a comparison of the indicators initially defined in the project submittal and the actual situation following the implementation of the project.



SOCIAL COMMERCE – STUDY IN SOCIAL MEDIA AND E-COMMERCE FOR THE DISPOSAL OF STRATEGIC APPROACHES TO OPTIMIZE CUSTOMER LOYALTY

Michael Pütter

University of Latvia

Aspazijas bulv. 5, Riga, LV-1050, Latvia

Phone: +49 171 5421335 (Germany)

E-mail: michael.puetter@puetter-online.de

Keywords: social commerce, e-commerce, customer loyalty

How can brands and business earn money with social media? Social commerce – the merging of social media and e-commerce – could be the answer. Social networks have reached the mainstream and many brands are responding to the issue: they integrate shopping features on *Facebook*, tweet special offers on Twitter and integrate social and integrate social media tools in their e-commerce platforms.

It can be observed that a structural change has been taking place in the online world for several years. Due to the ever increasing spread of new technologies on the internet and the formulation of new ideas for online communication and cooperation, ever more specific platforms and services focusing on “user generated content” have been developing since the beginning of the 21st century.

The roles of the information producers and the information consumers on the internet have therefore changed fundamentally. More and more online applications and services are being developed with which people can convey information to the outside world as well as network and communicate with each other. These services are now grouped under the term “social media” and have experienced an almost unprecedented mass distribution on the internet in recent years.

Whether *Facebook*, *Twitter*, *YouTube* or *Flickr* – everyone is currently talking about these new services, and they manage to surprise us almost on a daily basis with astounding new user numbers in the millions and technical refinements that make it easier and easier to create and spread ever larger amounts of user-generated content. The “old” information providers of the Web 1.0 – the companies – are becoming increasingly interested in this new way of communication and cooperation on the web. The wealth of options and information has spurred the debate about the beneficial use of social media in business processes.

In this paper I wish to address specific social media applications and services that are able to positively influence purchasing decisions in e-commerce, and to explore how consumers can be loyalized through added value in the field of communication and cooperation.



New Challenges of Economic and Business Development – 2012

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ETHICAL CHALLENGES OF ECONOMIC AND BUSINESS DEVELOPMENT

Dr. Stephen Rainey

*Facultés Universitaires Notre Dame de La Paix
Institut d'Informatique
Rue Grandgagnage 21, Namur, 5000, Belgium
E-mail: Stephen.rainey@fundp.ac.be*

Professor Philippe Goujon

*Facultés Universitaires Notre Dame de La Paix
Institut d'Informatique
Rue Grandgagnage 21, Namur, 5000, Belgium
E-mail: philippe.goujon@fundp.ac.be*

Keywords: Ethics, Governance, Values, Reason, Europe

The European Union is committed to ethical governance. In this, it hopes to provide a basis for responsible, democratic and above all morally sound governance such that the values of human beings are not compromised by the unopposed sectoral concerns.

Ethical governance is by no means simple, however, because of a long-standing cleavage in Western Occidental rationality between public and private uses of reason, begun in Kant and played out in different ways between Habermas and Rawls' influential writings. Effectively, this introduces a gap between norms and values, with the latter being seen as too subjective for legitimate deployment in governance.

However, the lived lives of people are inextricably connected with the subjective engagement with history, culture, religion etc. meaning that value is an ineliminable part of understanding another human being *qua* person.

European governance has most thoroughly engaged with ethical governance in the context of technology development. Information and Communication Technologies (ICT) have a growing impact, including ethical and social impact, on all aspects of life today. The potential for ethical impacts increase as ICT becomes more complex. It appears important to consider potential ethical issues before and during information technology development, even if anticipating these effects is difficult due to the complexity and convergence issues.

The practical ethics developed in ETICA and EGAIS suggests one basic question: how far can a procedure be adjusted to the context of individuals or groups so that it can produce (a) a shift in their cognitive and normative framing (b) a new relationship to the norms and to the stake of normativity (c) an integration of values in the process of elaboration of norms? From the research carried out in these projects, lessons can be learnt for the broader context of ethics in economic and business development.



New Challenges of Economic and Business Development – 2012

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FOREIGN STUDENTS AT UNIVERSITY OF LATVIA – IMPORTANT PART OF THE UNIVERSITY

Beāte Ramiņa

University of Latvia

Raiņa bulv. 19, Riga, LV-1586, Latvia

Phone: +371 670434350

E-mail: Beate.Ramina@lu.lv

Biruta Sloka

University of Latvia

Aspazijas bulv. 5, Riga, LV-1050, Latvia

Phone: +371 29244966

E-mail: Biruta.Sloka@lu.lv

Alina Gržibovska

University of Latvia

Raiņa bulv. 19, Riga, LV-1586, Latvia

Phone: +371 670434334

E-mail: Alina.Grzibovska@lu.lv

Keywords: foreign students, student mobility, study environment

Foreign students in higher education establishments are becoming more and more important issue in the improvement of higher education institution attractiveness and competitiveness in the international education space. In recent years student mobility is becoming more and more important factor for effective university work. It requires attractive international study environment suitable to the majority of worldwide nations and cultures. Those issues are studied in academic research as well as prepared large number of policy documents. The paper/report is based on the theoretical studies as well as surveys of the foreign students of the University of Latvia. The goal of the research is to investigate the feedbacks from international students about their experience at the University of Latvia and offer some steps for more efficient solutions that would improve studies at University of Latvia for foreign students and make the University of Latvia more attractive for foreign exchange students. Research methods: theoretical study of relevant theory and quantitative surveys. For data analysis of survey results indicators of central tendency and variability, cross – tabulations and multivariate statistical analysis methods are used.



New Challenges of Economic and Business Development – 2012

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PROJECT MANAGEMENT SUPPORTED BY OBJECT ROLE MODELLING

Peter J. A. Reusch

University of Applied Sciences and Arts, Dortmund, Germany

E-mail: Peter.Reusch@FH-Dortmund.de

Keywords: Project Management, Stakeholder Management, Object Role Modelling

Project management needs more well developed and well implemented methods to meet future requirements. Many “standards” in project management are often introduced by associations like PMI[®] [1] or IPMA[®] [2] and are more focused on the certification programmes of the associations than on really “general” standards as mentioned in [3]. Object Role Modelling – ORM - is an approach derived from information analysis and data base design many years ago – [4], [5], [6], [7]. Object Role Modelling can help to identify roles and responsibilities in projects – and is strong in specifying constraints. Object Role Modelling can support change management by identifying new roles and responsibilities and role changes as discussed in [8]. Former contributions on Object Role Modelling in Project Management were focused on some selected aspects [9]. Here we include project management standards and most knowledge areas of project management. We can clarify concepts of existing standards and can extend these concepts [10]. Object Role Modelling can especially clarify fundamental management concepts we need in project management. Like in other areas in project management we have 3 fundamental management levels: 1. There are the basic mainly operational processes, like defining the scope of a project, develop a work breakdown structure, develop a project plan, etc.; 2. There are processes for managing and controlling projects, like running a project according to the plan and updating the plan; 3. And there are audit processes, which check if there is a project plan, if the project is managed according to the project plan, and if deviations are detected and lead to updates of plans. For all three levels there must be responsible project team members and they must take their roles and responsibilities. In project management we mostly have a focus on the first level. In PMBOK[®] we have a special knowledge area mainly dealing with selected aspects of the second level, that is “Project Integration”. The third level is not really covered in standards like PMBOK[®] [12]. With Object Role Modelling we can establish the management model for the first level of project management. The second level can be introduced directly and systematically on top of the first level, and the third level can follow systematically on top of the others. Many cases and many aspects of on object role oriented project management approach have been discussed [10].

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LEVERAGE DYNAMICS AND THE MACROECONOMIC CONDITIONS

Dr.oec. Inna Romānova

Department of Finance

Faculty of Economics and Management

University of Latvia

Aspazijas bulv. 5-230, Riga, LV-1050, Latvia

Phone: +371 67034632

E-mail: inna.romanova@lu.lv

Keywords: financial management, financial leverage, macroeconomic conditions, return on assets, return on equity

The enterprise financial leverage and capital structure are determined by various factors. The paper analyses the dependence of enterprise financial leverage on the macroeconomic conditions in the country. It proves the need for active leverage and capital structure management under different macroeconomic conditions, taking into account interest of shareholders and debtholders. The paper gives an assessment of recent trends in leverage dynamics under particular macroeconomic conditions in different EU countries. The results suggest that the macroeconomic conditions influence financial leverage and capital structure decisions as well as the ways the capital is raised. Based on the analysis made, author provides solutions for leverage and capital structure management under changing macroeconomic conditions.



New Challenges of Economic and Business Development – 2012

May 10 - 12, 2012, Riga, University of Latvia

LATVIA'S BANKING SECTOR IN THE CHANGING ENVIRONMENT

Ramona Rupeika-Apoga

University of Latvia

Aspazijas bulv. 5, Riga, LV-1050, Latvia

Phone: +371 67034625

E-mail: ramona.rupeika-apoga@lu.lv

Keywords: globalisation, banking sector, capital adequacy, regulation, and financial system

There is little disagreement these days that globalisation is changing the world, rapidly, radically, and in ways that may be profoundly disequilibrating. But beyond this already trite cliché, almost everything else concerning the phenomenon is subject to intense debate – in the context of an explosion of interest in and research on the subject.

The **object** of this paper is Latvia's banking sector.

The **purpose** of this research is to analyse how to maintain the benefits brought by globalisation at the same time as we are avoiding from the crisis as a last one.

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

1. identifying the main benefits and challenges of banking sector development in the changing environment;
2. analysing Latvia's banking sector as a part of global financial system;
3. analysing the main preconditions of sector financial stability;
4. on the basis of the author's findings to put forward offers, how Latvia's banking sector can to benefit in the changing environment.

Chapter 1 explores the key benefits of banking sector globalisation. Chapter 2 analyses the main challenges of banking sector development in the changing environment. Finally, in Chapter 3 the author looks for solutions how Latvia's banking sector can to benefit from changes brought by globalisation at the same time avoiding from the crises as the last one, by analysing capital and regulation as a most important components of financial stability.

The results underline the need to recognise that markets need rules, constraints and careful monitoring so that banking failures are less frequent and less costly. And that the rules, constraints and monitoring exercises need a macroprudential approach.

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



THE ASPECTS OF MERGER SYNDROME IN M&A TRANSACTIONS

Alen Sacek

Participant in Doctoral Program in Management Science

University of Latvia, FH Kufstein

E-mail: alen.sacek@gmail.com

Keywords: merger syndrome, emotional events, employee resistance, merger outcome

Mergers and acquisitions are now commonplace in the European economy as companies try to improve their competitive position in a global marketplace. Research indicates, however, that many mergers have not resulted in the expected benefits, in part because organizations have neglected the human resource aspects of the change. Although mergers and acquisitions transactions are characterized as highly emotional events, research on the emotional dimension of these events is still rare. This is especially the case as far as crossborder activities are concerned.

This paper describes the typical effects of the merger process on the people involved and, identifies the necessity of considering the human resource factor within the mergers and acquisitions transactions.

Recent M&A studies on human issues frequently call upon the ‘merger syndrome’ as a typical post-merger phenomenon and a concept used to describe the – usually negative – effects on the attitudes and behavior of employees in the affected organizations. In order to identify the potential causes of merger syndromes, I have looked at existing theories and what I was able to conclude is that the “soft” or human side of M&A was often the most problematic.

Drawing on elements provided by cognitive appraisal theory, affective events theory, the literature on the merger syndrome, and qualitative field research with employees, this paper also introduces an analytical framework for investigating the role of emotions in international mergers and acquisitions transactions.



**ACTIVE EMPLOYMENT ACTIVITY'S INFLUENCE
ON LATVIAN STATE AND MUNICIPALITIES' BUDGET
DURING YEARS 2009 – 2011 – RESEARCH RESULTS**

Dr.oec. Svetlana Saksonova

University of Latvia

Aspazijas bulv. 5, Riga, LV-1050, Latvia

E-mail: Svetlana.Saksonova@lu.lv

Keywords: state government budget, local government budget, costs of administration, organizational costs, alternative costs

The aim of this paper is to report the results of the research on evaluating the active employment measure „Training for Obtaining and Maintaining Work Skills if Local Government is the Employer”, which was requested by the World Bank and State Employment Agency. The focus of the paper is on the impact of the measure on the budget of state and local governments in Latvia. The economic essence of the measure is the payment of a stipend of 100 lats to the unemployed, who for this stipend perform different work at training sites organized by local governments. The research was conducted using several sources of information including data from the Central Statistical Bureau of Latvia and State Employment Agency, as well as the results of the survey of households, local government representatives and experts.

The author had shown the impact of the measure on state and local government budgets by evaluating:

- Costs of administering the measure and organizing training sites;
- Alternative costs – the implementation of the measure means that local governments do not have to cover the costs, which they would have cover otherwise.

The author shows that the measure was very timely, because it had helped to ensure at least a temporary employment opportunity for many people in Latvia and preserved their desire to find work. Taking into account the fact that Latvian GDP data shows the large and protracted negative influence of the economic crisis on the GDP of all regions, there was a real need for such measures that stimulate GDP.



New Challenges of Economic and Business Development – 2012

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GOVERNANCE AND INNOVATIVE TOURISM DEVELOPMENT

*Doctoral student **Günter Salchner***

University of Latvia; University of Applied Science, Kufstein, Austria

6600 Pflach, Hüttenbichl 11, Austria

Phone: +43 676 5926577

E-mail: gsalchner@gmx.at

Keywords: governance, innovation, LEADER, tourism development, Austria

Tourism development is one of the biggest drivers of growth and employment in rural areas. However, in the last decades tourism turned from a seller's market into a buyer's market. In mature and highly competitive markets such as the alpine tourism industry innovation and cooperation are seen as important strategic weapons. But developing innovative products and coordinating the destination development in a coherent way are very complex tasks. In the context of Rural Development Programmes the so called LEADER approach is considered as a powerful instrument to foster both innovative tourism development and regional governance. However, in its special report on the implementation of the LEADER approach for rural development, published in 2010, the European Court of Auditors comes to the conclusion that only a few LEADER territories could demonstrate innovation or interaction between different sectors in their development efforts. The paper aims to uncover governance pattern and identify driving forces. Theoretically grounded on actor-based institutionalism several quantitative indicators are used to discover correlations between governance potential and innovative tourism development. The study is based on data of LEADER territories in Austria.



New Challenges of Economic and Business Development – 2012

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THE APPLICATION OF IAS FOR DEVELOPING BUSINESSES, ESPECIALLY IN THE EU

*Doctoral student James Samuel
Accounting and Economics department
University of Latvia
Aspazijas bulv. 5, Riga, LV-1050, Latvia
E-mail: jamsam@inbox.lv*

Keywords: International Accounting Standards, International Financial Reporting Standards, Economic development, Management, Assets, Liabilities

Aim and purpose of the research. The basic aim is to encourage businesses both large and small to utilize the IAS in their everyday functioning to obtain the benefits and advantages in improve the functioning and efficiency in their accounting and administrative sectors. In doing so they shall reduce their costs of administration and production to a large extent, besides they might even gain on incentives and other deductions available through the standards that concern their respective organisations.

In these times of economic crisis and global recession, it is imperative that there is corrective action taken to bring about a bounce in these stricken economies to strengthen their resources and bring them back to normal health. There are many measures that could be taken to boost the operation of these businesses, especially small ones and medium size businesses. One of the measures used to help economies and struggling businesses to come back to their normal health and be viable is through the use of (International Accounting Standards), IAS. There are various IAS that can be applied to enable small businesses to develop and grow, but it is more prudent to use those that can directly help in the development of businesses to be back on the road to progress and profitability.

The International Financial Reporting Standards, (IFRS), help in making business decisions relevant and promote their use in making predictions about the results of the past, present or future events and actions. They also serve as corrective tools with regard to past actions and evaluations.

There are many IAS's that allow for corrective management of businesses, such as, IAS 37, which deals with the recognition, measurement and presentation and provisions and contingent and contingent liabilities. IFRS 6, Exploration for and evaluation of mineral resources, which assists in guiding industries who are involved in seeking, finding and extracting of minerals, oil and gas to obtain benefits of accounting and reporting. IAS 19, which is accounting for employee benefits, gives guidance on the justifiable amounts to be paid out as salaries, wages, bonus and termination benefits.

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New Challenges of Economic and Business Development – 2012

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WHY INDIVIDUALS TAKE PART IN SOCIAL MEDIA ACTIVITIES?

Tom Sander

FH Kufstein Tirol University of Applied Sciences, Austria

Phone: +49 160 98 75 39 17

E-mail: tomsander@hotmail.de

Keywords: Social Media, needs, recruiting, internet

This paper reports about groups, needs, social media and recruiting. The knowledge about groups, needs, social media and recruiting supports recruiter to identify new potential candidates. The combination of scientific research about human groups and human needs explains the success of social media. The paper describes the reasons to be a member in a group. The main focus is on social media groups and online networks. The theoretical background for this paper is Maslows “Hierarchy of motivation”. This psychological theory gives advice to understand human behavior and to understand the reasons of individuals to join a group.

Influenced by the internet there are changes that have to be under consideration. Today the recruiter has a new situation and opportunities. This paper helps hiring companies to understand the theoretical background regarding the reason to join a company or a group.

One particular aspect is the need of individuals. This gives a good overview about individual's interest to be in a group and to join a group. The explanations are under the consideration of the needs of groups. There is a difference between individuals and group needs.

Further illustrate the paper the relation between groups and social media. The paper support further steps to create new knowledge and perspectives for the hiring process. There are two main issues for recruiter; one point is to identify groups with interesting potential candidate's e.g. online communities with specialists for a product. The second issue is to illustrate the reason for individuals to join a company.

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New Challenges of Economic and Business Development – 2012

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A HAYEKIAN VIEW ON THE MIDDLE INCOME TRAP

Henrique Schneider

Swiss Federation of Small and Medium Enterprises

Schwarztorstr. 26, CH-3001 Bern

E-mail: h.schneider@sgv-usam.ch

Keywords: Hayek, Schumpeter, industrial economics, China, middle income trap

This paper intends to give a new interpretation to a phenomenon generally called “the middle income trap.” A developing nation gets “trapped” when it reaches a certain, relatively comfortable level of income but can't seem to take that next step into the big leagues of the world economy, with per capita wealth to match. Up to now, every emerging economy in Asia has confronted this “trap,” or is dealing with it now. Breaking out of it, however, is extremely difficult. The reason is that escaping the “trap” requires an entire overhaul of the economic growth model most often used by emerging economies.

In this paper, the usually made connection between income trap and the structure of economy will be abandoned and instead, the “trap” is being interpreted as a bearer of information in itself. According to the Austrian school of economics (Hayek), prices represent the sum of the information that is available to the markets. Stagnating incomes will consequentially be read as information concerning the lack of growth of the productivity of the work-force and the industry. They may also denote (but not causally) the need for a Schumpeterian “creative destruction”.

The “middle income trap” therefore is not something that can be dealt with in overhauling a country's economy, but has to be addressed on microeconomic level focusing on the increase of productivity. Usually, the trap cannot be addressed by government policies, but has to be solved by increased entrepreneurship.

The concept behind the “middle-income trap” is quite simple: It's easier to rise from a low-income to a middle-income economy than it is to jump from a middle-income to a high-income economy. That's because when you're really poor, you can use your poverty to your advantage. Cheap wages makes a low-income economy competitive in labor-intensive manufacturing (apparel, shoes and toys, for example). Factories sprout up, creating jobs and increasing incomes.

However, that growth model eventually runs out of steam. As incomes increase, so do costs, undermining the competitiveness of the old, low-tech manufacturing industries. Countries (like Malaysia) then move “up the value chain,” into exports of more technologically advanced products, like electronics. But even that's not enough to avoid the “trap.” To get to that next level – that high-income level – an economy needs to do more than just make stuff by throwing people and money into factories. The economy has to innovate and use labor and capital more productively. That requires an entirely different way of doing business. Instead of just assembling products designed by others, with imported technology, companies must invest more heavily in R&D on their own and employ highly educated and skilled workers to turn those investments into new products and profits. When war on the divided peninsula came to a halt in 1953, the south was poorer than the north. By 1997, though, the South Korean per capita gross domestic product (at purchasing power parity exchange rates) had reached 57 percent of the average of the Organization for Economic Cooperation and Development, a group of free-market democracies which Seoul joined in 1996.

The 1997-98 Asian financial meltdown set back many countries across the region. Investment, vital to sustaining medium-term economic growth, has still not recovered to precrisis levels in Malaysia, the Philippines and Thailand. South Korea, though, after nearly defaulting on its debts at the end of 1997, pulled itself together and resumed its march up the value chain. The key reason is that Seoul embarked on far-reaching market changes. In particular, the government reduced the power of the chaebol, the sprawling debt-heavy conglomerates whose links to the state created the impression that they were too big to fail.



THE IMPACT OF ELECTRONIC COMMUNICATION WITHIN ORGANIZATIONS' MEDIA ON MANAGERIAL LEADERSHIP BEHAVIOUR

– Operationalisation / Indicalisation of Measured Variables –

Dipl. Inform. (Univ.), MBA (Univ.) **Stefan Schwerd**

Sandoz International GmbH / HEXLA AG

Industriestraße 25, 83607 Holzkirchen / Germany

Phone: +49 8024 908 1441

E-mail: stefan.schwerd@sandoz.com

Keywords: management theory; email communication, business communication, leadership behavior, leadership style

Nowadays the media email is an intensive used way of communication in private sector as well as in professional area. Rapid transmission of information to a broad number of recipients enables absolute new ways of communication and management. On the other hand it may also cause negative outcome and informational overload [1] at the recipients.

The impact of email as a new communication medium is well researched from within Communication Theory and Sociology Theory. The impact and changes in Management theory are not researched at all. The aim of this research is to focus explicitly on the internal communication within global enterprises, research the changes in managerial leadership behavior of mid level managers caused by use of email substituting other channels of communications.

It is well accepted that speed of information distribution improves dramatically by using electronic media at all – as a consequence value chain processes speed up too which leads finally to an increase of economic value. [2] At the same time it is well accepted that since communication technologies available to executives are also available to their employees, information overload now threatens the productivity of organizations as a whole, making it imperative executives set an example of successful time management. [3]

As this is one example for two valid but disjunctive statements the question about the cause of, and the need for changes in managerial leadership behavior must be raised.

In this context the changes of managerial leadership behavior are analyzed along absolute terms in management theory, e.g. speed of information distribution, control over information detail, control on timing of information distribution, information level advantages, vulnerability of management style by uncontrolled information access.

The empirical evidence therefore is to be captured via a questionnaire to a minimum of 30 midlevel managers in global enterprises.

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New Challenges of Economic and Business Development – 2012

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DEMANDS FOR IMPROVING MANAGEMENT EDUCATION IN BELARUS

Doctor of sociology, Professor Valentina Simkhovich

Belarus State Economic University

Partisan Avenue, 26, Minsk, 220670, Republic of Belarus

Phone: +375 17 209 78 49

E-mail: simkhovich_V@bseu.by

Keywords: management education, curriculum, managerial competences, socially responsible employee

The aim of the report is to discuss the ways to improve management education in Belarus. A number of Belarusian universities train more than a thousand future managers. They have got qualified staff and developed educational programs in the area. But as it follows from deep interviews with native employers management education is separated from real life because graduates have good theoretical knowledge but poor competences in managing an economic entity [1]. The employers' complaint has the grounds to exist: the 2008 curriculum of the major "Public administration" worked out by the Academy of Management at the President of the Republic of Belarus and considered a must for the other Belarusian universities training specialists in the area, doesn't include a course of Management.

The other demand is a need to train socially responsible employees [2] proved by the poll carried out among Belarusian employers in 2008 [3]. Social responsibility seems specialists' essential quality as it meets the demands of socially responsible business to shorten the time and cost of professional socialization and avoid egocentrism of contemporary student youth resulted from the impact of globalization processes. Besides, the 2011 economic crisis highlighted the demand to train crisis managers.

To improve management education in Belarus a number of steps should be undertaken. At the institutional level it should be working out new educational standards oriented to provide a union of theoretical knowledge and developed managerial competences on the grounds of native and foreign experience in the area. It takes time but an immediate step universities can undertake is to include the course of Corporate Social Responsibility into the curriculum of training specialists in economy and management as it was done by Russia and other CIS countries etc. [4]. It will help to foster specialists who are both professionally and morally ready to perform work and disseminate the CSR information to clarify the positions of business and society about the phenomenon.

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New Challenges of Economic and Business Development – 2012

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CITIZEN PARTICIPATION SELF-ASSESSMENT OPTIONS IN LOCAL GOVERNMENTS

Lilita Seimuškāne

Faculty of Economics and Management

University of Latvia

Aspazijas bulv. 5, Riga, LV-1050, Latvia

Phone: +371 29287088

E-mail: lilitase@inbox.lv

Keywords: citizen participation, local democracy, local self-governments, participation indicators

Modern governance of today is characterized by the level of citizen participation. It is an indicator not only of effective democracy but also characteristic of good governance.

Why is participation such a vital part of local democracy? It lends support to decisions made by local authorities and to their implementation. Participation plays a role in developing better local policies and improving public service quality. It may be implemented only by asking people for their opinion, obtaining assessment, analyzing it and providing feedback. Participation is also an expression of loyalty as a factor of attachment to the area in which a person lives, as a mark of identity.

Getting people to participate is not easy. Furthermore, in many cases it is difficult to identify the causes affecting the level of participation and the coherence, because participation is an issue both to new democracies and to the old member states during economical crisis and “golden age” periods. Hence the factors affecting participation need analysis.

The purpose of the paper is to introduce assessment options for citizen participation in municipalities, drawing on a participation self-assessment tool that has been developed through international collaboration, the CLEAR tool, by adapting and modifying it to study the particular situations in local self-governments.

Applying this methodology allows us to diagnose participation in the particular municipality. It reveals and describes the overall picture of participation, identifies problems in several research directions and enables the municipality to develop solutions to improve local democracy. Self-assessment methodology allows comparing cases of participation development between municipalities both within the country and on the international level.

In accordance with the CLEAR methodology, participation was assessed in five main directions:

1. What is the assessment of capacity required for citizen participation (resources, skills, knowledge);
2. How weak/strong is the citizens' sense of belonging to the area in which they live, and what factors have influenced it;
3. What is the legal and institutional framework of the municipality for the development of participatory democracy and how active is the local civil society in interaction with local authorities;
4. What participation methods are used and how often the municipality uses them to improve the local policies and services delivered;
5. What is the assessment of participation opportunities from the citizens' perspective.

After applying the particular methodology for participation diagnosis, the author concludes that it may be applied in municipalities and its results may be analyzed. Initially, it could be used as a pilot project for a few municipalities, yet in the future such an audit of local democracy may take place regularly – at least once during the term of elected office.



New Challenges of Economic and Business Development – 2012

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THE CRISIS IMPACT ON INTERNATIONAL RATING AGENCIES: NEW TENDENCIES AND PROBLEMS

Dr.oec. Irina Solovjova

Department of Finances

University of Latvia

Aspazijas bulv. 5, Riga, LV-1050, Latvia

Phone: +371 29570465, fax +371 67034738

E-mail: irina.solovjova@lu.lv

Dr.oec. Ramona Rupeika-Apoga

Department of Finances

University of Latvia

Aspazijas bulv. 5, Riga, LV-1050, Latvia

Phone +371 29331977, fax +371 67034738

E-mail: rr@lanet.lv

Keywords: rating, international rating agency, rating process

The amount of information provided in modern market economy is extremely large and wide-ranging and even big companies lack resources for the information processing and selection. In this situation a particular role belongs to the independent assessment of the risks of states, commercial banks, enterprises and financial instruments. The ratings provided by rating agencies serve as the main tool for regular assessment. The ratings of states, regions, enterprises and commercial banks indicate the object security, stability and solvency. Directions of rating system creation and development comprise the following economic attributes: manufacturing (enterprises representing mining, transport, communication and other industries), finance (commercial banks, insurance companies, investment funds etc.) and commodity markets. The best known rating agencies are *Standard&Poor's* founded in 1860, *Moody's Investor Service* founded in 1914 and *Fitch IBCA* that was reorganized in 2000 after the takeover of *Thomson Financial BankWatch*. Lately fierce criticism of the performance of international rating agencies has become frequent referring the incapability to provide a timely reaction to changes taking place in economy and in the world. An issue that has been particularly disputed concerns the domineering of three American agencies in the rating market thus concentrating the assessment of the financial risks of various globally located objects in their hands. No European or Asian rating agency provides services in the international rating market which raises doubt about the impartiality of the rating assessment and the need to introduce a strict supervision of the operation of the international rating agencies.

The article deals with the history of the creation of the international rating agencies and their role in market economy. The author have also presented their research on the methodological aspects of rating creation and factors affecting it as well as the possibilities of practical application of the acquired assessments in the risk management process.



DECISIONS UNDER UNCERTAINTY: THE INFLUENCE OF FEAR ON THE INVESTMENT DECISION

*Doctoral student **Florian Spiegel***

University of Latvia; University of Applied Science, Kufstein, Austria

Schleißheimer Straße 82, 80797 Munich, Germany

Phone: +49 17610019615

E-mail: stud.Florian.Spiegel@fh-kufstein.ac.at

Keywords: Decision Making Process, Uncertainty, Fear, Investment

Currently we are facing a very complex economic situation in which most private and professional investors make their investment decisions under the influence of fear. This fear, born from the current economic situation as well as resulting influential promotes a downward spiral.

In general, a degree of uncertainty always underpins an investment. In such cases where fear compounds omnipresent uncertainty, an irrational decision can assume large proportions, as observed in times of economic difficulties. To what extent is an individual really capable of making rational investment decisions under the influence of fear?

With regards to an investment a current withdrawals are replaced by possible future withdrawals: Sacrifice for future benefit [1]. At the time of the investment the investor lacks any knowledge about the actual forecast of these future withdrawals. This also corresponds to the definition of uncertainty as a partial absence of knowledge of future events [2]. In volatile markets, as it is the current case the emotional state of fear is added to the uncertainty. This fear is based on a determined situation which conceals danger [3]: The loss of investment.

The goal of this paper is to provide a comprehensive literature review of the latest findings in the area of decision making under uncertainty. Derived from these findings this paper discusses up to which level of fear an individual is still capable of making rational investment decisions. Furthermore as to what ratio this fear is financially protecting or even harming the individual is investigated.

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EUROPEAN INDUSTRIAL RELATIONS: COLLECTIVE BARGAINING IN THE EU AND EU MEMBER STATES

Doctoral student Sergejs Stacenko

University of Latvia

Aspazijas bulv. 5, Riga, LV-1050, Latvia

Phone: +371 29469777

E-mail: Sergejs.Stacenko@lu.lv

Keywords: industrial relations, collective bargaining, trade unions, social partnership

The paper will describe the main trends in industrial relations and its institutions in the EU that currently show a mix of continuity and diversity. Tendencies towards declining union density in the EU countries, decentralisation of collective bargaining and greater employee participation continued, and the company level has become more prominent. Continuity can be seen in the high levels of employer organisation, bargaining coverage, and a role of governments in industrial relations [1]. The author will pay attention to position of collective actors in industrial relations: trade unions and employers' associations respectively. For each, the main organisational features and representation of members will be emphasized. A key institution in the relation between unions (workers) and employers (firms) is the collective labour agreement [2]. The paper states that national industrial relations regimes remain diverse – mainly between the EU-15 and the 12 new Member States, but also within them in different country groupings. The effect of the current financial and economic crisis on industrial relation arrangements is not yet clear. A description of the trends and variations in industrial conflict will be discussed [3].

The conclusions of the paper will stress that trade unions and employers' organisations were recognised as being major interlocutors for several governments seeking to respond to the crisis. Together with monetary and fiscal stimulus policies, negotiation and consultation involving the social partners have played a significant role in limiting negative social consequences. On the whole, industrial relations in Europe have been vital. In 2010, the Cross- Industry Social Dialogue Committee adopted a joint contribution, that stressed a number of crucial for successful economic recovery objectives: reform of the global financial system, restoring and improving growth dynamics to create more and better jobs, promoting skills and entrepreneurship, revitalising the single market and developing an integrated EU industrial policy among others [1].

The paper will suggest to follow the financial and economic situation in the EU Member countries in 2011-2012 to study the role of social dialogue in critical times for the Europe.

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COHERENT TEAM STRUCTURE IN A THREE-DIMENSIONAL CAD NEW PRODUCT DEVELOPMENT (NewPD) ENVIRONMENT

Christoph Staita

Rehleitenstraße 22, 83098 Brannenburg, Germany

Phone: +49 176 78588687

E-mail: christoph.staita@kathrein.de

Keywords: New Product Development, Concurrent Engineering, Overlapping

This experimental field study examines the influence of a variable ratio between engineers and technical draftspeople in NewPD teams in a Three Dimensional CAD New Product Development environment on economic and socio-psychological efficiency. With the implementation of the 3D CAD software (Three Dimensional Computer Aided Design) the world of engineers seemed to become a completely new and fascinating one in which the engineer is a 100% creative part in the NewPD process of an innovative company – with all supporting activities taken over by a marvelous software, automatically and completely [1, p. 11]. Technical draftspeople who did supporting activities so far declined rapidly and engineers have more or less lost their “right-hands”, the technical draughtspeople [2]. Recent analysis of the workload of engineers under 3D CAD-conditions revealed – unsurprisingly – that at least one third of the hours of work are related to supporting activities, to distributable work [3, p. 189]. According to that situation these companies more or less lost the advantages of coherent work distribution and as a consequence of that the opportunity to overlap creative and routine activities between engineers and draughters. Based on the discussion of two important properties of the information’s to be exchanged, sensitivity and evolution [4, p. 440], this paper will show how overlapping can be processed in the execution phase of NewPD between engineers and technical draftspeople. Coherent work distribution plus overlapping procedures should finally increase the economic and socio-psychological efficiency of the development department and the company as a whole, measured by lead time, costs, quality and various soft facts. The following causal model for socio economic analysis shows possible cause-effect relations between different team constellations in NewPD teams under 3D CAD conditions. The paper will also address the research design.

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**CRITICAL FACTORS OF SUPPLY CHAIN MANAGEMENT
AND STRATEGIES IN THE FOOD INDUSTRIES –
DEVELOPMENT OF A DECISION SUPPORT SYSTEM
FOR STRATEGIC MANAGEMENT OF AGRICULTURAL
RAW MATERIAL CULTURE**

*Mag., Doctoral student Alexander Stelzer, LL.M., LL.M.
University of Latvia; University of Applied Science, Kufstein, Austria
Schönau 223, Bad Häring, Tirol, 6323, Austria
Phone: +43 676 5337441
E-mail: alexander.stelzer@gmx.net*

Keywords: Organizations and Markets inside Ecological Revolution

Procurement of goods is increasingly becoming a central theme of our daily life. With the growth of world population and the climate change of our time the subject is omnipresent.

Currently food is often traded through agencies and historically marketplaces. Sometimes it seems that there is no regulation by the lack of market expertise and international regulative. But it is vital that the distribution and price control is placed under supervision. Such Claims as required by various organizations.

Creation of an optimization model with the result of a decision aid for possible introduction of restrictions and for a recognizable impact on the food trade!

What factors should consult organizations such as WHO, FAO, etc. in order to decide possible sanctions in world trade and what action or non action for an optimal distribution, etc. must be taken.

This model should be created to explain the scarcity degree of agricultural resource and thus legitimize any penalties or not.

In the top metalevel is the “Metaziel” of sufficient supply, broken down to the lowest metalevel to the optimization of the profits by producers and suppliers;

These limitations are to be used to address a global issue of food allocation, while creating an optimization model for decisions by restrictions of large organizations.

Optimization model as a result: Decision support for possible introduction of restrictions or rejections and thus detectable effect on the food trade in relation to:

- Efficiencies;
- Equities;
- Profits;
- Distributions.



New Challenges of Economic and Business Development – 2012

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HUMAN CAPITAL AND SUSTAINABLE DEVELOPMENT

Tatjana Sudova

Saint Petersburg State University of Service and Economy

Chaikovskogo str., 62, Saint Petersburg, Russia

Phone: +9052571985

E-mail: s_tl@mail.ru

Keywords: human capital; sustainable development; Human Development Index, education

Human development is both the goal and the means of economic development. But the term “sustainable economic development” is known and used in modern economic literature rather than “sustainable human development”.

Only in recent years, literature on social and economic development has emphasized increasingly the process of human development. Moving away from the identification of development with statistics on economic growth, this approach stresses the necessity to place human beings at the centre of development.

The Human Development Index (HDI) is used now as a reliable indicator of human development [1].

Without sustainability, human development is not true human development. If human development means enabling people to lead long, healthy and educated, then sustainable human development is about making sure that future generations can do the same.

The theoretical foundation of human development is the theory of human capital. This theory needs rethink in accordance with current situation. Human capital is the main recourse of the global knowledge-based economy, and it is created by education. Thus, the concept content of education should answer the purposes of development.

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**THE ANALYSIS OF THEORETICAL APPROACHES
FOR CALCULATING VARIOUS FINANCIAL RATIOS**

Ruta Šneidere

University of Latvia

Aspazijas bulv. 5-434, Riga, LV-1050, Latvia

Phone: +37167034633

E-mail: ruta.sneidere@lu.lv

Keywords: analysis, methods, profitability, turnover

Nowadays the methods of financial analysis are widely used to estimate a company's financial position and operating results. Studying scientific literature of the theoretical guidelines for the financial analysis we can find different approaches. The aim of the research is to study methods of various financial ratios calculations and basing on the empirical research findings to develop the recommendations for improvement the methods for it. The author of this paper is studying theoretically different scientist's findings for using book value or average value of balance sheet analyzing such important ratios as turnover and profitability of companies. For the empirical research the data from annual statements of Latvian companies of different branches are used. In the research the author has applied quantitative and qualitative methods of economics such as the mathematical and the statistical methods, the ratio analysis, the graphical method, the logically – constructive methods. At the end of the research the author summarizes the general conclusions and findings.



ROLE AND EFFICIENCY OF PERSONAL INCOME TAX RELIEFS IN PROMOTING SOCIAL AND EMPLOYMENT GOALS IN LATVIA

Ilmārs Šņucins

Faculty of Economics and Management

University of Latvia

Aspazijas bulv. 5, Riga, LV-1050, Latvia

Phone: +371 29157582

E-mail: ilmars.snucins@fm.gov.lv

Keywords: personal income tax, tax reliefs, tax expenditure

Personal income tax (PIT) rate on labour income in Latvia is 25%. The flat income tax system was introduced in Latvia in 1995 and proved to be as one of cornerstones of tax policy. Flat tax system is favoured by its simplicity and helps to avoid penalising for being productive and earning more money.

When comparing with European Union, where mostly progressive personal income tax systems are in place, Latvia's top statutory rate (25%) is considerable lower than average in EU – 37.1% (in euro zone – 41.8%). But if comparing tax wedge (the difference between labour costs to the employer and the corresponding net take home pay of the employee) for a single worker at two thirds of average earnings situation is different – Latvia has higher tax wedge than EU average³. [1, p. 99-103]

It is recognized that especially for less productive individuals, whose wage tends to be low, high taxes could be substantial hurdle to enter labour market. Labour costs influence also social security contributions (SSC), which usually have higher rates than PIT. However if there are relationship between amount of SSC paid and benefits received, the negative impact on labour supply could be smaller. [2, p. 23] Therefore primarily PIT should be investigated for “making work pay” initiatives.

In the case of flat tax system this issue could be addressed through introducing allowances. Thus making tax more progressive and removing obstacles to enter labour market for low-skilled individuals.

Other most common personal income tax reliefs are introduced for redistribution purposes – allowances for children, other dependents, pensioners. PIT allowances could be used also for influencing savings behaviour etc.

As any tax relief also PIT reliefs have costs through adverse impact on the government revenue.

The aim of the paper is to analyse existing tax reliefs in the law on personal income tax in Latvia, comparing their fiscal costs to social and employment gains. Thus evaluating their efficiency and proposing further ways to reform.

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³ Data for 2009, tax wedge includes social security contributions.



SOCIAL SOFTWARE PLATFORMS AS MOTOR OF OPERATIONAL AIRPORT EFFICIENCY? – A CONCEPTUAL FRAMEWORK

Doctoral student Marion Tenge

University of Latvia; University of Applied Science, Kufstein, Austria

Burgwedeler Straße 121a, 30916 Isernhagen (Germany)

Phone: +49 177 8736325

E-mail: marion.tenge@gmx.net

Keywords: online social networks, social capital, service quality, operational efficiency, airport industry

Purpose: Due to commercialization, privatization and liberalization, the traditional role of German airport organizations as merely providers of infrastructure is giving way to a more market-oriented understanding. Airport service quality and the ability to constantly innovate are important variables that contribute to overall airport attractiveness. Despite that airports are becoming increasingly aware of the need for customer-orientation, the majority of airports still suffer from a lack of genuine customer (passenger) insights. While internal measures of airport performance (flight delays, check-in queuing times etc.) and frequently conducted customer surveys are suitable for benchmarking purposes, they do not reveal the true customer perspective, as they are likely to measure the obvious and easy to operationalize issues that account for customer dissatisfaction. The growing adoption of social software platforms is now enabling airport organizations to enter into a dialogue with their customers, gain a deeper understanding of customer needs and engage customers in quality assurance and innovation processes while leveraging social capital. The research paper examines, if airports are able to increase their operational efficiency when entering into a collaborative communication with their customers on Facebook, the globally most adopted online social network.

Design/methodology/approach: Based on a social capital / network approach to organizational work, the paper discusses the convergence of social and technological networks and the underlying motives of customers and organizations for joining social software platforms.

Findings: The paper proposes a theoretical model to describe how a mutually beneficial relationship between organizations and customers on Facebook can help airports to reach economic goals (improve operational efficiency). As a next step, the theoretical model will be operationalized and empirically tested in 2012 using qualitative and quantitative research.

Originality/value: Social capital research is still mainly scoped within organizational boundaries. The paper broadens the research focus to the focal actors *organization* and *customer*. From a practitioners' point of view, airport managers might find it useful to learn what organizational challenges arise when engaging with customers on social software platforms.



New Challenges of Economic and Business Development – 2012

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NATURAL GAS PRICE FORMATION AND IT PREDICTION IN LATVIA USING FUNDAMENTAL AND TECHNICAL ANALYSIS

Iļja Teterko

University of Latvia

Aspazijas bulv. 5, Riga, LV-1050, Latvia

Phone: +371 29922570

E-mail: iljatet@inbox.lv

Keywords: Energy independence, stock, green energy, monopoly

This research “Natural gas price formation and it prediction in Latvia using fundamental and technical analysis” focused on natural gas market situation in Latvia. Natural gas market in Latvia is not liberalized, there is only one company, what have exclusive rights for natural gas transition, distribution, sale and storage. This company name is joint stock company “Latvijas Gaze”. Shareholders of it company are JSC “Gazprom”, “E.ON Energie AG”, “Ruhrgas Energie Beteiligungs – AG “LTD. “ITERA Latvija”. JSC “Latvijas Gaze” tariff buildup is confidential information and not available for public.

Main problem in current situation is that it is difficult to predict natural gas price in future for natural gas consumers. This problem affects also on electricity generating companies from renewable energy sources, because electricity feed-in tariff for most of them depends on natural gas price in Latvia for business sector. Natural gas price prediction can help to electricity generating companies from renewable sources to establish risk management strategy and define situation in external market, when company can meet financial difficulties. Natural gas prediction can also help to companies to plan cash flows and predict the profit for renewable electricity generation investments projects implementations.

This research is based on available public information, technical analysis and different product correlation on commodity markets to find out, what is consist of natural gas tariff in Latvia, factors affecting on natural gas price in Latvia and it prediction using technical and fundamental analysis.



**THE COMBINATION OF SPECIAL ECONOMIC ZONES
AND DEFENCE INDUSTRIAL CLUSTERS WITHIN
THE FRAMEWORK OF DEFENCE ECONOMY**

Alekss Tiltiņš

Faculty of Economics and Management

University of Latvia

Aspazijas bulv. 5, Riga, LV-1050, Latvia

Phone: +371 26197541

E-mail: alekss_tiltins@yahoo.com

Keywords: industrial cluster, special economic zone, defence economy, defence industrial base, budget, research and development

Under the influence of the global financial crisis in many European countries defence financing has been decreased and military budgets have become smaller. Therefore nowadays it is almost impossible to use a military budget as a tool for the stimulation of development of defence industrial base and R&D sector. The alternative way is to use the cooperation between defence and civil sector, which can be expressed in different forms.

In this paper author will analyze two interrelated and rarely used concepts of the cooperation between defence and civil sector: special industrial zones and defence industrial clusters. Using the tax relief for manufacturers of military goods (domestic and foreign enterprises, as well as multinational corporations), and developing infrastructure of its regions, a small state may develop the combination of special economic zones and defence industrial clusters, which can support the national economy in the framework of development of regional Defence Technological and Industrial Base.

The aim of the paper is to define the main principles of functioning of the combination of special economic zones and defence industrial clusters in the framework of defence economy. To achieve the aim of the paper, firstly, author, by the analysis of theoretical sources and some experience, will identify the main principles of the functioning of special economic zones and industrial clusters in the civil sector. Secondly on the basis of the principles mentioned above author, using the case of a small European state, will define the main principles of functioning of the combination of special economic zones and defence industrial clusters.



**THE DEVELOPMENT AND FORMATION OF FINANCIAL
SCIENCE IN A WORLD CONTEXT**

Maria Tissen

Chair of Accountancy

Faculty of Economics and Management

University of Latvia

Aspazijas bulv. 5, Riga, LV-1050, Latvia

Phone: +371 29452777

E-mail: maria@katiss.lv

Ruta Šneidere

Faculty of Economics and Management

University of Latvia

Department of Accounting and Auditing

Aspazijas bulv. 5, Riga, LV-1050, Latvia

E-mail: ruta.sneidere@lu.lv

Keywords: financial analysis, history, economics, development

The worldwide famous financier V. Khodsky observed that ignorance of history will always work against future. Ignorance of history and sciences will inhibit ones ability to move forward and improve.

The aim of the paper is to discuss the origin and development of financial analysis science and to contribute to existing literature on this subject by providing a review schools of thought regarding financial analysis since the middle ages. The author develops a concise review of classical and neoclassical theories of financial analysis, as well as detailed review on the Italian school, as a founder of systematization of finance knowledge. The author dedicates the latter part of this paper to a discussion of the contribution made by Latvian experts in the field of financial analysis.

Aside from the in depth literature review employed in this paper, the author uses theological and conventional methods of economic analysis. Research in the field of financial analysis is significant in light of the current state of the world economy, particularly in Latvia and the Baltic States.



New Challenges of Economic and Business Development – 2012

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A MARKETING OPTIMIZATION MODEL FOR CRM ACTIVITIES

– The Influence of Marketing Channel and Communication Frequency on the Booking Behavior of Hotel Guests –

*Doctoral student Michael Toedt, DBA
Managing Partner, Toedt, Dr. Selk & Coll. GmbH
University of Latvia; FH Kufstein Forschungs GmbH
Augustenstr. 79, 80333 Munich, Germany
Phone: ++49 89 189 35 690
E-mail: Michael.Toedt@TS-and-C.com*

Keywords: marketing optimization, communication, CRM

The goal of CRM is to develop, keep and retain profitable customers. Many studies describe the effects. Reichheld and Sasser calculated with a profit boost by up to 100% by retaining just 5% more customers; [1] loyal customers intend to be less price-sensitive and would accept a 5% price increase in order not to endanger a relationship [2]; the retention of loyal customer's costs only 15 to 20% compared to the acquisition of new customers. [3] Summarized loyalty provides companies more security, more growth and a better profitability. [4] For the hotel business especially the soaring distribution costs forces a professional CRM strategy. Online Travel Agents like Expedia charges between 10 and 30% commission. [5] Since loyal customers intend to book directly an active CRM strategy is required for a booking channel and profitability optimization in the hotel business. There is no doubt Customer Relationships are one of the most important success factors in the hospitality industry [6] and communication is an integral part of it. Compared to other industries hotels have one important advantage, they know who their customers are. Through the booking process hotels have access to the contact information of their clients; name, address and email are commonly stored in the hotel data bases. The usage of this data for direct marketing and CRM is a key asset [7] and almost each hotel is actively using this potential.

But how important is communication within CRM exactly especially for an emotional product like a hotel, characterized by a low buying frequency? Which marketing channel is how effective and where is the contact corridor, respectively what is the best frequency to generate measurable results? Summarized what is right marketing mix for a successful CRM strategy for hotels? This paper should provide a fundamental help for marketers in order to implement an efficient customer relationship management.

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**DEVELOPING AN EMPLOYEE SATISFACTION SURVEY
FOR THE HUNGARIAN SME SECTOR:
IMPLEMENTATION OF THE EXISTING THEORIES**

*Doctoral student **Boldizsár Tóth, M.A.***

University of Latvia

Nelkenstr. 1, 36041 Fulda, Germany

Phone: +4966195250300

E-mail: boldizsar.toth@gmail.com

Keywords: Employee Satisfaction Survey, Measuring Employee Satisfaction, Job Satisfaction, Hungarian SME

The solid interest in the field of employee satisfaction research can be explained by the postulated link between employee satisfaction and productivity factors such as, reduction of absenteeism, increase productivity and other factors which is needed for longstanding success of a company [1]. The aim of the research in this field must be the operationalization of employee satisfaction and the identification of the actual state of employee satisfaction within the company [2] while relying on the latest theories.

The following paper will present how the current theoretical approaches in employee satisfaction, job satisfaction and motivational theory could be implemented into the research field and into the final form of the employee satisfaction survey. This survey will be carried out to identify possible relationship between employee satisfaction and the performance of the Hungarian SME sector.

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New Challenges of Economic and Business Development – 2012

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THE IMPACT OF GROWTH ON DISTRIBUTION AND INNOVATION IN THE AIRLINE INDUSTRY

Doctoral student Michael Trestl

University of Latvia; University of Applied Science, Kufstein, Austria

Edelweiss Air AG, Operations Center, P.O. Box

CH-8058 Zurich-Airport, Switzerland

Phone: +41-79-729 54 47

E-mail: michael.trestl@edelweissair.ch

Keywords: airline industry, distribution, growth, innovation, small- and medium sized

In the last forty-five years, the airline industry has undergone an expansion unrivalled by no other form of public transport, however, these high growth rates have produced only marginal profitability. External factors such as high prices for jet fuel, intense competition and elevated costs for security, given the threat of terrorist attacks, have caused airlines to restructure their organisations, use synergies within alliances and cut costs. Trends in customer needs and behaviours, demographic developments and the general competitive market environment force airlines to constantly revise their strategic directions and critically review their existing business setup. This is not only a challenge for (long) established carriers with organizational capabilities to navigate change and innovation, moreover, it is a key success factor for the future profitability of small- and medium sized market players. A crucial element of every airline's business model is distribution, which traditionally involves multiple channels ranging from GDS (Global Distribution Systems) to direct and indirect internet distribution. Airlines, possessing a relatively high growth rate will therefore have to especially reflect on their key competencies within their distribution framework, strategic aims and will have to critically answer the question of how they want to or do differentiate themselves from competing market players. For those growing businesses, it is therefore essential to know how growth impacts distribution and how small- and medium sized airlines can overcome pitfalls when innovating and preparing for their successful future. Furthermore, it is vital to reflect on whether industry-wide standardized distribution systems really constitute ultimate solutions for every airline, or not. These, and further questions will be addressed by a critical literature review and qualitative empirical research within this dissertation. Results will provide answers on how to navigate distribution innovation in small- and medium sized airline businesses, what potential marketing and distribution innovations might be feasible for that particular industry, and how these could be managed.



ICT ADOPTION MODEL – APPLICABILITY TO CRISIS PERIOD

Doctoral student **Juris Ulmanis**

University of Latvia

Aspazijas bulv. 5, Riga, LV-1050, Latvia

E-mail: juris.ulmanis@rbs.lv

Keywords: ICT, adoption, diffusion, crisis, Latvian business

The model recently validated by Ulmanis [1], suggests that decisions by managers/businesses to adopt or intensify the use of ICT are made as the result of a balance of factors. These factors are divided into two large components: objective and managerial. When these factors are considered they lead managers to make positive (or negative) decisions to adopt or intensify the use of ICT. During the international financial crisis (2008- 2012) both sets of factors would seem to predict that at best firms would stay static in their use and adoption of new ICT tools. To test this we surveyed 97 MBA students. Of the 97, 35 work for companies with more than 250 employees. Given that average firm size in LV is 10 employees [2], this suggests that the results are particularly applicable to the biggest firms in Latvia. The survey was in the form of a five point Likert scale. There were 4 categorical questions and a total of 41 items contained across the 4 questions. The 4 questions and contained 41 items were combined in a construct called *ICT Practice Change*. The items were coded for no change, some change, or significant change and compared in firms reporting high ICT use, medium use or low use. Using SPSS, an Item Response Theory model [3] was created by which to test the responses. Overall, there were no significant changes in use of ICT reported by Latvian firms. Intergroup (comparing high with medium or low for example) did show that high use groups reported significantly more changes than did low intensity use groups, but still the intensity of use did not change from 2008-2011. Generally, it can be stated that ICT use has changed very little in the time period 2008-2011. For all the variables the conclusion is that their importance was somewhat increased. This suggests that the prediction based on the model is accurate. This lends further support to the validity of the model.

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New Challenges of Economic and Business Development – 2012

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INNOVATION AND PRODUCTIVITY

Irena Vaivode

University of Latvia

Aspazijas bulv. 5, Riga, LV-1050, Latvia

E-mail: vaivodeirena@gmail.com

Keywords: innovation, competitiveness, productivity, small and medium sized firms

Much attention in innovation support programs of the Republic of Latvia is paid not only to enhance public, in particular – young people, awareness on innovation roles to the economy, but also to encourage people to start a business. Most of the innovation support programs have focused on private sector investment, which helps to ensure the recommendation of the European Commission for Latvia in respect of the need to increase public and especially private sector investments in R&D and innovation activities.

The chances of a small firms to survive and to be successful are becoming ever more dependent on innovation. Not only product innovation is important to maintain a sufficient market share, but also process innovation to produce below price level, and social innovation to maintain a flexible and durable organisation. The role of innovation in small and medium sized firms relates to the firm's success.

A number of hypotheses developed from the scientists of Tilburg university of the Netherlands. Hypotheses are empirically checked with data from a survey among 200 entrepreneurs in six countries show the relationship between success, innovation and creativity, some possible backgrounds of creativity and innovation are presented. The role of innovation in small and medium sized firms, in relation to the firm's success is described.

The next step is to analyze the model of technological competitiveness developed by scientists of University of Urbino, Italy. A strategy of technological competitiveness is a key mechanism supporting productivity growth, the key determinants are assumed to include the importance of new product development, market-oriented quality improvements and consumption growth. Model proposes to investigate the effects on productivity of innovation and demand, distinguishing between the mechanisms that are specific to different technological strategies of different companies.

Are described mechanisms acceptable in Latvian situation? I would like to answer to this question.



CHALLENGES AND PROBLEMS OF TOURISM STATISTICS IN LATVIA

Iveta Vanaga

Faculty of Economics and Management

University of Latvia

Aspazijas bulv. 5, Riga, LV-1050, Latvia

Phone: +371 29239064

E-mail: iveta@a-sono.lv

Keywords: tourism, statistics, travel industry development, tourism statistics

Travel and tourism industry during recent years is undergoing dynamic structural changes. According to European Travel Commission's New Media Trend Watch [1] gross online travel bookings across Europe in 2011 will account for 35% of the total travel market volume that shows a continuous growth compared to 21% in 2006 and 33% in 2010. Traditional distribution chain with travel agencies as intermediaries between customer and service provider is losing its significance. In this situation national tourism statistics faces a challenge how to collect comprehensive data on key travel and tourism figures that is substantially based on data provided by travel agencies, especially concerning outgoing market segment. Above that in 2010 conceptual amendments were made in Latvia's travel and tourism regulatory framework, including change of legal status of market participants not synchronized with requirements and practices of tourism statistics. Author of this paper has analyzed current problems in obtaining reliable data on travel and tourism in Latvia, comparing it with situation in other EU countries, mainly Estonia and Lithuania, as well as outlining the initiatives recommended by EU authorities. During this research the author founded some inconsistencies in the compilation of data [2] and has drawn out recommendations both in methodology, as well as in legislation.

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SUPPLY CHAIN MANAGEMENT – PART OF STRATEGIC MANAGEMENT

Klaus Venus

Nußböckstraße 2, A-4060 Leonding, Austria

Phone: +43650 2814440

E-mail: klaus_venus@yahoo.de

Keywords: Supply Chain Management (SCM), Strategic Management, Dynamic Capabilities, Competitiveness

Purpose. The purpose of the paper is to investigate how Supply Chain Management (SCM) is integrated with strategic management of companies and how this degree of integration impacts the competitiveness of companies. SCM is a capability that connects operational levels, where innovation actually occurs, with strategic levels and synchronizes the strategic and operational factors when managing resources strategically. Therefore, SCM is concerned with managing all activities involved in integrating supply and demand management within and across companies composing the supply chain. The new competitive landscape is described as “hypercompetitive” because it is characterized by “escalating competition and strategic maneuvering” due to rapid technological developments and increasing globalization.

Design/methodology/approach. For the purpose of this work, I will adopt the definition of dynamic capabilities as the “ability to integrate, build and reconfigure internal and external competences to address rapidly changing environments”. Strategic supply chain management means that supply chain management is not merely a function that supports business strategy but a key part of strategy and strategy implementation. The strategic integration of SCM on firm base will be evaluated by literature study. In parallel a questionnaire will be developed to empirically understand how SCM (SCM-strategy is developed, is part of business strategy, drives business strategy) is part of business strategy and how this is communicated and what is the business impact compared to peers.

Findings. Many executives are still hesitant to surrender the control of their operations to a total SCM function that tries to optimize the entire demand network rather than an individual firm’s operations. Strategic management research has been concerned with the question of, „why certain firms attain and sustain competitive advantage during both stable and unstable market conditions“ propose that firms’ dynamic capabilities, which they define as “the abilities to reconfigure a firm’s resources and routines in the manner envisioned and deemed appropriate by its principal decision-maker(s)” lead to differences in firms’ abilities to identify and exploit future growth opportunities which *could* lead to attaining and sustaining competitive advantage. Trust between partners develops more effectively when incentives and purposes of the partners are aligned and a shared identity is created. Surely, incorporating perspectives from strategy research into SCM can guide SCM and elevate it to a more strategic level, while at the same time, strategy can benefit from SCM in implementing and enabling organizational strategies.

Practical implications. In fact, supply chain management has become an important and effective means for lowering costs, improving customer service, meeting customer demand, and obtaining competitive advantage.

Originality/value. Indeed, the organizational and strategic routines that make up dynamic capabilities seek to create difficult-to-imitate combinations of resources in an effort to gain and sustain competitive advantage in stable and changing markets. The integration, collaboration, coordination, and synchronization of the supply chain is critical for creating an agile and responsive supply chain. Although this holistic view promoted by supply chain integration holds much potential for securing competitive advantage, and as intuitive as it may sound, integration across a complex supply chain and network in a timely manner does not naturally occur and is difficult to achieve.



DYNAMIC PRICING ONLINE: EVIDENCE FROM LATVIA

Renate Vidruska

University of Latvia

Aspazijas bulv. 5, Riga, LV-1050, Latvia

Phone: +371 29195175

E-mail: rena.vidruska@gmail.com

Keywords: dynamic pricing, Latvia, internet stores, pricing online

Recent year statistics shows that number of Latvian internet stores has stabilized, but their turnover has grown rapidly [1]. However, there is a lack of researches and evidences from Latvian online market.

The aim of this paper is to analyze price dynamics for certain groups of goods in Latvian internet web stores.

Also it is notable that empirical literature on dynamic pricing usually has a number of limitations (for example, focuses on specific product groups like books or specific online stores like Amazon) that authors believe are not so suitable for Latvian case) This makes internet pricing evidences from Latvia an interesting and important area for research.

There exist geographical and time limits when gathering price related information from competitors in traditional stores. However, unique characteristics and transparency of internet eliminates those limits.

In this paper authors use publically available data on the sale ranks for goods from different Latvian internet stores. Data are collected programmatically on daily basis. Price dynamic and significant price differences are compared and analyzed among different internet stores. Using collected data authors also evaluate price dispersion, estimate the elasticity of demand, create a consumer price index for goods available online and compare this online price index with CPI.

Firstly, results will show overall situation related to dynamic prices in Latvian internet stores. This should provide opportunities to compare and apply existing foreign studies for dynamic pricing. Secondly, the given results together with future research should help web stores to manage dynamic pricing mechanisms in internet.

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THEORETICAL ASPECTS OF LOCAL ECONOMIC DEVELOPMENT IN RURAL AREAS: A LITERATURE REVIEW

Ilze Vilka

Faculty of Economics and Management

University of Latvia

Aspazijas bulv. 5, Riga, LV-1050, Latvia

Phone: +371 27877077

E-mail: vilks.ilze@gmail.com

Keywords: economic development, community development

There are 5 planning regions (which will appoint regional development centers), 9 cities with status of national importance, and 119 municipal units altogether in Latvia. Lately the regional planning includes the idea of polycentric development with focus on regional development centers. The regional development strategies have been elaborated and development strategies for local governments are either elaborated as well or in process of elaboration.

Socio-economic indicators show that rural territories differ from urban ones (suburban areas and area around capital Riga) in terms of economic development level. In case of Latvia rural economic conditions are very diverse comparing to urban or suburban territories. Latest internal population migration trends are oriented from rural territories towards urban or suburban ones. There is a trend that capable workforce diminishes in rural areas. The territory of rural municipalities' is cover more than half from State's territory, but in terms of total employment they form only 19%.

Sustainable Development Strategy of Latvia until 2030 suggests the Latvia's main capital is people. The diminishing workforce and lower development level in rural territories brings forward issues concerning the policy goals for the development of rural communities.

Purpose. The aim of this article is to provide conceptual framework for evaluating and diagnosing a potential of economic local economic development.

Design/methodology/approach. Author presents thematic state-of-the-art literature review both on economic development and economic development from local perspective. Author used peer reviewed scientific articles published by SAGE, EMERALD, and Cambridge Journals Online. The latter scientific discussions on local development challenges are highlighted. By methodological approach focus is kept on methods used by other researchers for evaluating and diagnosing a potential of local economic development.

Findings. Research identifies economic and non-economic factors defining the outcomes of local economic development perspectives and identifies questions for further research and discussion.



CHALLENGES OF PAY SYSTEM DEVELOPMENT IN PUBLIC SECTOR: CASE OF LATVIA

*Doctoral student **Katri Vintiša**
Faculty of Economics and Management
University of Latvia
Aspazijas bulv. 5, Riga, LV-1050, Latvia
Phone: +371 26599119
E-mail: katri.vintisa@creativetechnologies.eu*

Keywords: pay system, public sector, performance related pay

Public sector pay has always been an object of active public discussion. It is also among the issues that have been put on a harsh perspective during financial crisis. Financial crisis in public sector in Latvia as well as in some other transition countries was most obviously manifested as a large scale downsizing and cost cutting, lowering the public sector pay levels in the first place. Financial downturn also has revoked the discussion suitability of performance related pay for public sector. Attempts to introduce performance related pay in the civil service took place in the 1980s and 1990s, but the tendency was still active also in the first decade of 21st century. Back in 1980s and 1990s, public administrations began to react in coping with what was called “the fiscal crisis of the State”, a way of naming the consequences of the economic crisis originated in mid 1970s. This led many to advocating for a more businesslike approach in public administration operations. [1] Based on the case of Latvia, the author discusses advantages and disadvantages of tying results of performance evaluation to pay. Another purpose of the paper is to present results of the study on responses to crisis of ten transition countries with a particular emphasis on impact to pay system. [2]

The **research data** were gathered using the method of semi-structured individual interviews, focus group discussions and electronic online survey. The basic elements of existing performance management system of public administration of Latvia were studied (e.g., goal setting, performance evaluation, connection with other human resource management process like development and reward) to find out the main deficiencies of existing practice and to formulate suggestions for improvement. The **research results** reveal that there are two kinds of drawbacks within the existing system, e.g. contextual drawbacks (e.g., performance criteria an rating scale) and implementation drawbacks (proficiency of managers, rating inflation, connection between evaluation and the pay system) that lead to misuse of the system and adverse effects on motivation of employees.

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SOCIAL DIMENSION OF INSTITUTIONS

Mg.oec. Alise Vītola
Riga Technical University
Meža iela 1/7, Riga, LV-1048, Latvia
Phone: +371 29519983
E-mail: vitola.alise@gmail.com

Dr.oec., Professor Maija Šenfelde
Riga Technical University
Meža iela 1/7, Riga, LV-1048, Latvia
Phone: +37167089430
E-mail: maija.senfelde@rtu.lv

Keywords: institutions, institutional economics, social capital, culture, values

A recent body of literature has argued that the institutions are the fundamental cause of differences in economic development. It has been argued that such factors as innovation, economies of scale, education, capital accumulation are not the causes of growth, but the growth itself, and that the political and economic institutions are the fundamental cause of differences in economic development [1].

Institutions are the rules of the game in society, which shape the interaction in society and provide incentives for regularities of behaviour. They are made up not only from formal, state-order rules, but also informal, private-order beliefs, norms and conventions. Moreover, formal and informal institutions are complemented by their enforcement mechanisms. Social, political and cultural processes, as well as historical events play an important role in economic development [1-2].

The goal of this article is to survey significant literature and make conclusions on social (informal) dimension of institutions and their role in economic performance. Culture and religion is a key determinant of values, preferences and beliefs, which shapes economic performance. The most famous example is Weber's theory about the role of Protestantism and especially Calvinism in the origins of industrialisation [3]. Civil capital is a broader notion than social capital (cooperation in community) and is influenced by culture, ethnic homogeneity, factor endowments and the physical environment, and last but not least – the human capital [4]. Values change rather slowly; in large corporations or government the change of values takes about 10-15 years, whereas in the society – at least a generation [5].

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METHODOLOGY FOR PRINT ADVERTISEMENT QUALITY ASSESSMENT

Sergejs Volvenkins

Faculty of Economics and Management

University of Latvia

Aspazijas bulv. 5, Riga, LV-1050, Latvia

Phone: +371 29435194

E-mail: rigalat@gmail.com

Keywords: print advertisement assessment, mistakes in print advertisement

For the purpose of detecting faults in print advertisements, the author has developed a methodology for print advertisement assessment. This will help perform analysis of print advertisements in order to detect more precisely the mistakes present in the message and thus allow marketing specialists to improve communication with the target audience and increase the return from advertisement. The author has established five criteria that influence the efficiency of an advertisement and are most important components of practically every print advertisement. These are headline, main text, design, slogan and logo. To assess print advertisements, the author proposes creation of an expert group. Each expert must be highly qualified in his field; therefore, this paper also includes methodology for evaluation and selection of experts. The selected experts assess print advertisements according to the established criteria. After the assessment, the advertisement quality is calculated and areas (criteria) of errors are detected. The author has proved by a particular example the practical importance of the methodology developed in this paper.



APPROACH FOR SELECTING ERP SOFTWARE AT MID-SIZE COMPANIES REFLECTING CRITICAL SUCCESS FACTORS

Claudia van der Vorst

University of Latvia; University of Applied Science, Kufstein, Austria

St. Erasmus Strasse 10, 83064 Raubling, Germany

Phone: +49-8035-964888

E-mail: ClaudiavdVorst@hotmail.de

Keywords: Critical Success Factors (CSF), Enterprise Resource Planning (ERP), Small and Mid-size Entities (SME), Information Technology (IT), Decision Making, Acquisition

In the 1990s, enterprise resource planning (ERP) systems became the state of the art tool to replace self-made legacy systems. With the trigger “Year 2000” and “Euro currency” a lot of the systems reached the final stage of further maintenance and had to be replaced. While the market of ERP implementations at big global companies reached almost saturation, the small-and medium size companies are at the beginning. The decision for an IT-ERP package and its implementation is an extensive, lengthy and costly process which often runs into problems or cost overruns [1].

The decision for one specific package defines not just the IT framework with hard- and software, the selected system is the backbone for all business processes from “purchase to pay” to “order to cash” and all management processes, reports and forms on top. For small- and medium-size companies it must provide an extreme flexibility along with high professional business processes at affordable costs. These requirements summarize the high risks a company is taking while deciding for an ERP system. So the efficiency and satisfaction with the decision is highly dependent on the quality of the execution of the selection process [2].

Expert Interviews and Case Studies have been executed to support the literature review. The interviews with industry experts provide a clear overview of the current practice and support the hypothesis that ‘a clear and structured process and the awareness at senior management level from the very beginning’ would lead to successful long-term decisions. The focus of the case studies should be directed to better understand the dynamics and complexities involved in each case. The experience from large entities could be leveraged for SME’s considering their specifics. In summary a clear execution method and a structured set of critical success factors are the main scientific results for this study.

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IMPACTS OF LEADERSHIP BEHAVIOUR ON SUBORDINATE MOTIVATION

Barbara Wagner

University of Latvia

Raiņa bulv. 19, Riga, LV-1586, Latvia

Phone: +49 69 5780 5676

E-mail: btwagner@web.de

Keywords: Behaviour. Motivation, Leadership, Management

After defining important key terms, this paper shows different types of leadership behaviour by analysing them as action and non-action. While action is defined by conscious, disciplined, long-term goal-oriented behaviour, non-action is characterized by lack of focusing, lack of energy and the disability to cope. Non-action and passiveness are distinguished and different reasons for non-action are shown. Some leaders are non-active due to a lack of focus and tend to lack prioritizing (thematic straying), be driven only by the immediate situational needs only (reactiveness), lack planning and reflection (activism), be unable to develop new plans of action (use of behavioural templates) and lack the ability to translate intentions into actions (state orientation). Other leaders lack the energy to act, caused by the denial of the need for action (defensive avoidance), an inwardly, uninvolved attitude (distanced activity) or the subjective lack of influence (learned helplessness). After these different types of leadership behaviour and its roots are described, a short excursion shows the most important facts and differences between intrinsic and extrinsic motivation. As a result, the different types of leadership behaviour are analysed in regards to their impact on subordinate motivation or demotivation. It is shown, that leadership action tends to be more motivating for employees than non-action, while still bearing some threats. Leadership action can motivate employees by serving as an example, giving orientation and meaning to their tasks. On the other hand, if a leader seems to be too perfect in its behaviour, employees tend to feel inferior and lose their motivation. Leadership non-action does not have any potential to motivate subordinates, even though the different characteristics do have different levels of negative impact on subordinate motivation. As a conclusion, hands-on suggestions are given how leaders should behave in their day-to-day worklife in order to motivate their subordinates.



THE ROLE OF NEW PASSIVE INVESTMENT TOOLS WITHIN THE MODERN PORTFOLIO MANAGEMENT PROCESS

Doctorate student Jens Wingefeld

University of Latvia / University of Applied Sciences, Kufstein

Spielplatzweg 2, 65795 Hattersheim, Germany

Phone: +49 177 2962958

E-mail: jens_wingefeld@hotmail.com

Keywords: Passive Investment Strategy, Exchange Traded Funds

When we regard the history of financial markets, many distortions can be detected. Capital-market participants had to cope with tremendous situations which often seemed unaccountably. Impressing examples for market turbulences in history are the Netherlands tulip mania in the 17th century, Black Friday on October 19th, 1987, or not least worldwide financial crisis, beginning in autumn 2008 with all its impacts up to the present day to the national economies and social life of people in general. Thus, whenever a portfolio of financial assets is to be managed, there is the question what is the best way to process. In a sophisticated view, it is the question how to reach a preferably high risk-adjusted rate of return. Few topics in finance have generated more engaging discussions between academics and investment professionals than the debate over active versus passive portfolio management. In this regard, active management does mean that an investor has an opinion of the current market situation and tries to act according to it, while passive management means that an investor tracks an index as it actually performs.

The objective of research is to evaluate the utility of the latest releases of passive investment portfolio management tools like Investment Certificates and especially Exchange Traded Funds (ETF's) or Exchange Traded Notes for retail investors. Research is done by a comparison of the track-record of certain ETF's versus active managed mutual funds that try to cover the same investment universe. Diverse success-measurement figures are derived like Sharpe-ratio, upside-and downside capture, volatility etc. that allow evaluating success in diverse dimensions.

The main results are that a) with a sophisticated election of diverse new passive products it is possible to achieve higher returns after costs and often even before costs, and b) it is even more expedient to use the new passive tools when measuring the benefit by a risk-adjusted return-figure.



THE IMPACT OF INCREASED EFFICIENCY IN LOGISTICS PLANNING OPERATIONS ON LOGISTICS PERFORMANCE

*Dipl.-Ing.^(FH), Doctoral student **Manuel Woschank**, MSc
University of Latvia; University of Applied Sciences, Kufstein, Austria
A-9421 Eitweg, Gemmersdorf 11a, Austria
Phone: +43 650 2291092
E-mail: office@woschank.com*

Keywords: Supply Chain Performance, Knowledge Management in Supply Chains, Knowledge Management Systems

Introduction/Motivation: The main issue of our times is finding concepts to handle a complex multitude of problems triggered by a constant change in economy and society which has rapidly raised competitive pressure. Especially in the field of supply chain management and logistics there are several opportunities to increase the overall efficiency of a modern manufacturing enterprise. This paper develops a theoretical framework to enhance the supply chain performance based on a comprehensive literature study by reflecting significant organizational theories on their applicability in supply chain management. These adapted principles could be used to ensure a continuous adjustment to the dynamic environment which significantly contributes to a long-term protection of the company's position.

Problem scenario: In fact regular concepts of logistics management (optimization of interfaces, parallelization, synchronization, stabilization of processes, etc.) are already starting to reach their boundaries which leads to the cognizance that scientists have to find new methods to optimize internal and external processes. In the near future the increasing global competition will force organizations to compete supply chain vs. supply chain instead of company vs. company. Knowledge as a production factor continues to be the basic for a continuous improvement of processes and for organizational learning, also making it the basis for the creation and safeguarding of sustainable competitive advantages. In today's global environment, companies can only be competitive if they manage their knowledge in supply chains as diligently as their use of materials, machines and equipment.

Methodology/Approach/Findings: This paper creates a conceptual framework which combines principles of supply chain management and knowledge management based on organizational theories. The main target is to find possibilities for the efficient use of the resource knowledge by setting up knowledge networks and correctly combining internal and external knowledge. Furthermore it needs to be ensured that the required knowledge is available flexibly for optimizing inventory and enhancing delivery performance. The developed framework will be used as source for an empirical analysis in further research. The findings could be used to higher the supply chain performance by understanding the impact of knowledge management on supply chain processes.

