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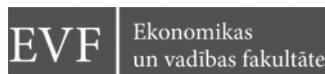
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**A 350 YEARS COMMEMORATION<sup>1</sup>**  
**– *The Beginning of Modern Political Economy* –**

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**Keywords:** universal jurisprudence, law, political economy.

Last year it was 350 years since Samuel Pufendorf's (1632-94) first book *Elementorum Jurisprudentiae Universalis* (Elements of universal jurisprudence) was published in The Hague. It is an integrated account of ethics, jurisprudence, social science and political economy.

The author acquired an enviable reputation and it started his remarkable career; 1660 professor at University of Heidelberg, 1668 professor at University of Lund, 1677 royal historiographer at the court in Stockholm, and in 1688 historiographer and judicial councillor at the court in Berlin.

Not satisfied with his first work an enlarged version in eight books *De Naturae et Gentium* (On the Law of Nature and Nations), which was published in 1672. An abridged student edition *De Officio Hominis et Civis* (On the Duty of Man and Citizen) was published the year after.

The popularised *De Officio* was translated into 9 languages, published in more than 150 editions and in tens of thousands of copies. For more than 100 years it was among the most read academic books and became curriculum at most Protestant universities. The classicists Locke, Montesquieu, Rousseau, Hume and many others had all studied and built on his works. This was also the case for the French; Nicole, Domant, Boisguilbert and the Physicrats; as well as the English; Mandeville, Carmichael, Hutcheson and Smith.

Pufendorf therefore started the process that developed political economy into a subject of its own within the social sciences.

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<sup>1</sup> A previous version of this paper was presented at the European History of Economic Thought Conference at the University of Amsterdam, 24-26 March, 2010.



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## THE OUTCOME OF THE FINANCIAL CRISIS 2008: THE CASE OF LATVIA

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**Keywords:** crisis, factor productivity, time series, Latvia.

**JEL:** G01, O47, C22

Latvian government are used various fiscal stimuli to mitigate a fall of economy in the current crisis (2008-????). In particular, there was used expansion of unemployment benefit by extending the duration; pre-announced increase in consumption tax rates, the public sector wage bill reduction, and increase of support to specific industries. Of course, a fiscal stimulus is highly useful when the financial crisis spills over to the corporate and household sectors with a resulting worsening of the balance sheets. But the main question is: Do current fiscal actions of Latvian government are appropriate and are effective response to the crisis?

This study is based on time series data for Latvia, 2002-2011. The study is covered period not only during but also prior to crisis and there is used comparative Latvian data analysis to rest of the world, to better understand causes of the crisis 2008. Econometric methods are used to estimate the potential output of Latvia, to clarify the fiscal stimuli to help crisis control or/and crisis prevention.

Latvia has fixed currency exchange rate so the role of monetary policy is restricted, and the fiscal policy there should be used until output begins to recover. The first signs of output recovery we could observe in 2010, and consequently Latvian government fiscal policy was appropriate to stabilise the financial system and the real economy in the short run. But potential output analysis shows that current policy to boost potential economic growth and competitiveness does not strengthen the flexibility to future crises. So to restore economy to sustainable growth and fiscal paths there is requires reversing temporary support measures.



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## MARKET PRICE REACTIONS OF ANALYST REVISIONS AND DETERMINING FACTORS ON THE GERMAN STOCK MARKET

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**Keywords:** analyst recommendations, stock market, upgrades, downgrades, excess return, investment strategy.  
**JEL classification:** G11, G14.

Stock market analysts are an integral part of capital markets and therefore attract a lot of attention, particularly since they are supposed to reduce asymmetric information. Their reports but especially their recommendations are closely observed by both institutional and individual investors as well as by researchers. Thus it is often hypothesized that analysts can forecast and influence stock price movements by means of their reports and recommendations. Already for a long time, academics have been interested whether analyst recommendations contain useful information that result in market price adjustments. A significant body of research papers records that stock prices react significantly positive to upgrades and significantly negative to downgrades in the consensus of recommendations [1, 2] and examines the determining factors of these price reactions [3].

This paper addresses for the first time the German stock market. We analyze the stock price movement due to changes in recommendation consensus of analysts and give evidence on the question whether recommendation revisions do contain new information. Furthermore, we examine the determinants of the market price reaction.

The primary data is taken from Reuters Knowledge for the period from 1998 to 2008. Our sample contains 14,471 events produced by 126 companies from the German stock market. For estimating the normal change in stock prices we use the mean-adjusted model with an estimation period of 180 trading days prior to an event as well as the market-adjusted model.

The abnormal returns are aggregated across all companies and throughout time. Also the results of the event study are validated with a parametric test (t-test) and the nonparametric Wilcoxon signed rank test. In order to analyze the determinants of the abnormal return the anatomy of these returns is analyzed by means of ordinary least square (OLS) regressions including six different factors. In a first step, each factor is regressed separately followed by a multifactor regression including all factors.



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Our event study documents an **immediate and highly significant reaction for both upgrades and downgrades** in recommendation consensus. Additionally, it can be observed that **the reaction for downgrades in recommendation consensus lasts longer** than for upgrades in recommendation consensus. Consequently, it can be concluded that the revisions in consensus recommendation do contain new information which is consistent with semi strong market efficiency.

Besides the examination of the market reaction the results display that factors like the level of the recommendation, the magnitude of the revision in recommendation as well as the magnitude of the target price revision are determining factors of the observed abnormal return. The findings show that upgrades to strong buy result in a higher stock price reaction than upgrades to another consensus recommendation level. Furthermore, high consensus recommendation revisions have a higher stock price impact than lower revisions. On the other hand, downgrades with a higher delta of the target price revision have a larger negative impact on stock prices than target price revisions with a smaller delta. Moreover the downgrade of a relatively small company has a higher stock price impact than the one of a big company. These findings on the German market are partly consistent with former findings on other stock markets.

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## IS VOLATILITY RISING LIKE A PHOENIX? CHARACTERISTICS OF VOLATILITY AS AN ASSET CLASS FOR THE GERMAN MARKET

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**Keywords:** volatility, asset class, investment, correlation characteristics, VDax-New.

**JEL classification:** G10, I11, I12.

Modern Asset Allocation strives not only for high returns, but rather spotlights superior risk and return profiles. Worldwide, investors have used investments in different types of asset classes in order to diversify their portfolios in the past. However, last years' financial crisis furnished us with the experience of collapsing prices in conjunction across all asset classes. The interaction of the intense search for new alternative assets with strong diversification abilities and the historical high fluctuation on the financial markets led us to the idea of analyzing the securitization of the fluctuation itself.

In the past volatility in itself was observed as being highly volatile. Moreover certain descriptive statistics show that long term expected returns on investments in volatility are low [1, 2]. These issues therefore raise the question why investing in volatility should be desirable at all and are expected to be zero on the long run. Correlations among assets' returns are critical for the analysis of a portfolio's possible risk and return profile. The data for our study on the German market (in particular the so called VDax-New) was provided by Thomson Financial Datastream, covering the period from 1992-2008.

This study aims to scrutinize an institutional investor's opportunity to invest directly in volatility on the German market. We want to find out about volatility investment's return characteristics in a basic statistical way as well as in a deeper econometrical context. The conducted approaches are observed during different historical scenarios in order to find out about coherences between volatility and stock or bond market developments. It is therefore also questioned to which extend these coherences are dependent on the stock market's development itself and whether or not they are subject to changes. Since correlations among assets are crucial for the construction of portfolios, the development of the correlations of the analyzed assets is observed during the time flow of the analyzed period. The paper rises the question to which extends correlations are constant and if they change, during which scenarios the changes take place.



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The Jarque-Bera Tests shows that returns among investments in volatility seem to be more likely normally distributed than investments in the classical asset classes are. This enables us to conduct a valid Mean Variance-Analysis. The analysis of correlation signals not only that correlation is almost always highly negative, but even that a favorable decoupling of correlation among volatility as an asset class and stocks takes place. This, in turn, leads to a higher negative correlation during crash scenarios and a less negative correlation during bull markets, which again favors the investor.

Our findings suggest that investments in volatility as a stand alone asset class are highly unattractive. A huge standard deviation in combination with long term expected returns near zero demand for an extraordinary diversification benefit in order to keep alive our hypothesis that this asset class shall not be neglected in a portfolio context. Still, generating this benefit by additionally providing a great downside protection is exactly what our study claims to find on the characteristics of volatility as an asset class.

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## A CONCEPTUAL ANALYSIS OF BRAND LOYALTY DIMENSIONS

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**Keywords:** loyalty dimensions, attitudinal loyalty, behavioral loyalty, customer satisfaction.

The globalization of competition, saturation of markets, and development of information technology have enhanced customer awareness and created a situation where long-term success is no longer achieved through optimized product, price, and qualities. Loyal customers are reported to have higher customer retention rates, commit a higher share of their category spending to the firm, and are more likely to recommend others to become customers of the firm. While marketers are primarily interested in ways they can generate and increase brand loyalty from their customers, academics strive to conduct research that investigates the antecedents and consequences of customer loyalty. A literature review identifies several classifications of customer loyalty; the most common are attitudinal and behavioral loyalties.

The primary purpose of this article is to illustrate dimensions of brand and to summarize information from different studies and to describe theoretical framework of attitudinal and behavioral loyalties.



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## THE ECONOMICAL NATURE, PRINCIPLES AND STRUCTURE BUILDING THE BUDGET CLASSIFICATION IN CONSOLIDATION PERIOD

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**Keywords:** budget execution, budget classification, financial system, commitments.

The leading role in forming and developing economical structure in any modern society have public sector administration, which are implemented holding particular economical politic.

The main significant mechanism, which allows government to perform economical and social regulation, is the public financial system, and the core of such system is state budget. Using financial system, government performs direct influence in forming decentralized funds of finance resources, providing possibilities to perform public sector functions.

The all level of budgets are formed and executed using limits approach to union budget classification – grouping expenditures and revenues assigning to particular object classification groups codes. The main goal of these article is to describe budget classification and give some new vision how to systematized government spending in crises period.

The main attention for improving state budget maintenance is including all state budget activities into one classification. The article describes how to group revenues and expenditures from all budgets, if the particular institution budget has some donations and assignments from the government. It does include local authorities, non-government institutions, state stock companies, funds and etc.

The article describes the purposes of budget classification:

- Major types of budget classification Republic of Latvia;
- Budget classifications usage;
- A basic steps for other budget reforms;
- Expenditure program formulation, analysis and monitoring;
- Budget execution.

The state budget is the main process for mobilizing (occupying) and spending state resources, gave to political authority the real possibility to manipulate with economic: to finance structured reforms, to stimulate growth of the priority sectors of economics, in crisis, provide social support to needy inhabitant groups.



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## INTERACTIONS BETWEEN EU FUNDS DURING 2007 – 2013 PERIOD: THE RESULTS AND RECOMMENDATIONS

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**Keywords:** Cohesion policy, EU funds, interaction, planning period.

The aim of the paper is to examine how do contributions financed from various EU funds complements each other and can there be synergy observed among them.

Since the reform of EU Cohesion policy in 1989, it has been implemented through various funds and this paper will cover the following of them:

- European Regional Development Fund (ERDF),
- European Social Fund (ESF),
- Cohesion Fund,
- European Agricultural Fund for Rural Development (EAFRD),
- European Fisheries Fund (EFF).

The analysis on interaction between EU funds will be performed in the cross-section of institutional responsibilities and Operational programme implementation – role of ex-ante strategic planning, programme implementation, projects and beneficiaries.

Methodologically, the study will be based on the desk research involving review of strategic planning documents – National Strategic Reference Framework, Operational programmes and the reporting documents – implementation reports, strategic reports, information available at the websites of institutions forming part of Management and Implementation system of EU funds for the period 2007 – 13, as well as conclusions of recently performed evaluation studies. It is also intended to perform semi-structured interviews with number of public administrators involved in implementation of EU financial assistance.

The data presented in this study shall be considered to have sufficient degree of reliability due to the fact that most of the information regarding the implementation of Programmes financed from EU funds is aggregated into official documents (like reports) of the involved institutions and made publicly available.

At the end, conclusions will be made and presented on the effectiveness of existing system with several EU funds designed for the delivery EU Cohesion policy, as well as the recommendations will be elaborated on the required improvements for the system of allocation of financial assistance through EU funds for the forthcoming budget planning period 2014 – 2020.



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## FACTORS HINDERING ARTISTS' ECONOMIC ACTIVITIES IN LATVIA

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**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 6<sup>th</sup> Directive of the European Union stipulates that author's fees are subject to value added tax.



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## ESTIMATION OF THE LATVIAN HOUSEHOLDS ALMOST IDEAL DEMAND SYSTEM OF COMMODITIES

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**Keywords:** Almost Ideal Demand System, household demand, household expenditure, expenditure, elasticity of demand, price elasticity of demand.

The given research work exploits Household Budget Survey data and price indices of Central Statistical Bureau of Latvia made on 12 commodity groups according to COICOP (Classification of Individual Consumption According to Purpose) for the period 1997-2008.

There is estimated Almost Ideal Demand System for 5 integrated commodity groups: "Food and non-alcoholic beverages", "Clothing and footwear", "Transport", "Recreation and culture", and "Consolidated commodity group". For the given commodity groups expenditure elasticities of demand and price elasticities of demand are calculated. The calculated expenditure elasticities of demand allow all commodities classify as normal commodities.

Elasticities calculated by the help of Almost Ideal Demand System show that by increase of welfare the expenditure elasticity of demand decreases for all commodity groups. Hereto, the expenditure elasticity of demand for food is less than 1 in all quintiles, however, the expenditure elasticity of demand for the other groups is more than 1. The expenditure elasticities of demand for the given commodity groups are compared to analogue indices of other countries also calculated by the help of Almost Ideal Demand System.



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## CAPITAL STRUCTURE CHANGE AND FEATURES DURING ECONOMIC RECESSION

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**Keywords:** capital structure, recession, cost of debt, cost of equity.

Enterprise financing represents one of the most studied issues in corporate finance. Capital structure is of particular importance in estimating the enterprise value; an accurately estimated and selected equity and debt ratio can maximize the enterprise value and minimize the price of capital therefore this issue is especially significant in the changing conditions of economic development. The global economic recession has had considerable consequences in Latvia. At the same time it has made Latvian enterprises optimize their operation by improving their organizational structure and seeking the possibilities to optimize costs. Therefore the business cycle is an important factor to consider when financial managers make decisions regarding capital structure.

The issue is topical in Latvia due to several reasons. Firstly, in Latvia there have been virtually no deeper studies of capital structure. Secondly, no empirical research has been made regarding capital structure and business cycle of Latvian enterprises. Thirdly, in Latvia the calculation of financial indicators and their analysis, including the determining of the weighted average cost of capital, is not common (*WACC*).

There are differences and specific features in the capital structure across industries therefore the authors chose one particular industry – the chemical industry. The chemical industry of Latvia has stable traditions as it has lastingly manufactured both the production for the final as well as business consumption. The authors consider that the industry is of vital importance for the 21<sup>st</sup> century as it can provide for comfort and increase the standard of living.

In paper will be reviewed capital structure changes and features during economic recession, based on data of Latvian chemical substances and products manufacturing enterprises. In last 10-12 years occurred several financial crisis (Russia, Brazil, Turkey, Argentina), but all before mentioned crisis did not leave such significant impact and consequences in Latvian chemical substances manufacturing enterprises as current global financial crisis.

In Latvia during the last 2-3 years credit institutions started comparatively tightly to evaluate borrower's solvency, in market lending temporary was stopped. Credit institutions have means for loan disbursement, but current economy is unpredictable, borrower's cash flows unstable and credit institutions have not good projects to finance. Loans are granted to long-term large and stable customers, who have profitable projects or can offer financial pledge as loan collateral.

The **purpose of the paper** is to analyse and assess the capital structure change and features in the changing conditions of economic recession, estimating the cost of the different sources of financing and the weighted-average cost of capital and, based on obtained data, to put forward recommendations for improving capital structure of Latvian chemical substances and products manufacturing enterprises in the changing economic environment of Latvia.

Overall can conclude that chemical substances and products manufacturing enterprise's world average capital structure and according ratios for Latvian enterprises differ – average world debt ratio is decreasing, at the same time in Latvia this ratio is increasing. Equally with debt ratio increase, actually decrease cost of debt – decreases interbank interest rates, enterprises raise even cheaper (compared to loans granted by credit institutions) debt by owners.



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## INCOME INEQUALITY AND ECONOMIC GROWTH IN LATVIA OVER THE LAST DECADE

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**Keywords:** income inequality, economic growth, Gini coefficient, GDP growth rate, Latvia, I390.

The link between income inequality and economic growth is the research object of many studies and frequently discussed issue today. However there is no unambiguous explanation. Critical literature review shows two main research results. On the one hand there is evidence that income inequality is connected or even strongly connected with the changes in economic growth. Mostly these studies show that higher inequality prevents economic growth. Nevertheless some studies prove that there is no connection between inequality and growth or this connection can not be taken into account.

During the last fifteen years Latvia has experienced significant changes affecting its future development. First Latvia was on the transit way from command economy to free trade economy. Second Latvia entered the European Union in 2004. It meant to Latvia higher openness of economy and trade liberalization. Third – impact of the Asian crisis in 1997 and global financial crisis in 2008. At the end of 2008 were the significant changes in economic of Latvia as a whole world.

This paper examines presence of the link between income inequality and economic growth in Latvia from 1996 till 2010. Gini coefficient is used to determine economic inequality as the most widely used indicator of inequality and GDP growth rate to reflect changes in the economic growth. The main finding shows strong positive correlation between Gini coefficient and GDP growth rate in Latvia particularly within the period from 1999 till 2007. With the economic crisis from 2008 macroeconomic situation changed and the link between inequality and economic recession disappears. There was a rapid decreasing of GDP growth rate, at the same time Gini coefficient remained comparatively high. The economic justification of such macroeconomic situation is discussed. According with Kuznets theory, the migration of the workers from the agricultural sector to the industrial sector explains increasing of income inequality at the initial phase of the economic growth. In Latvian case there are some differences first it was the transition period from command to free trade economy. It led to significant structural changes: agricultural and manufacturing share in GDP has been decreased while service industry is being increased. Second the economic activity in the agriculture and in the manufacturing has fallen. Hence given both different way of economic development and the impact of global financial crisis we can not use Kuznets theory to explain increasing of income inequality and this makes it difficult to forecast whether income inequality increases or decreases at the phase of the economic growth in the nearest future in Latvia.



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## USE OF CLUSTER ANALYSIS IN EXPLORING ECONOMIC INDICATOR DIFFERENCES AMONG MUNICIPALITIES IN LATVIA

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**Keywords:** municipalities, cluster analysis, economic development.

After administrative territorial reform in 2009 Latvia was split in 109 municipalities. There have been wide debates about borders and differences of these municipalities. In this paper cluster analysis will be used to look at the question of differences among municipalities from another perspective.

Data from the reports of the Ministry of Regional development and local governments will be used. Cluster analysis will be based on information about unemployment rates, age structure (proportion of inhabitants at working-age) and number of individual entrepreneurs in these municipalities. These variables are chosen to reflect economic situation in municipalities and they are comparable also for regions of different size and population.

Cluster analysis can be a useful tool for arranging observations into groups that can be further analyzed. It is not a supervised classification or simple segmentation by already known attribute (for example, if municipalities belong to specific planning region or depending on number of inhabitants). It is rather a process of finding out unknown group profiles.

There have been discussions that, although now municipalities are larger than previous districts and it could help distributing resources equally and enhance equivalent development, in reality also the new system has faced several problems. The aim of this paper is to use cluster analysis for creating new perspective for discussing similarities and differences of economic and social development in municipalities of Latvia.

Cluster analysis can be rather subjective as results may depend on method chosen. That is why in this paper several methods will be tested and compared to understand if there are significant differences in results or they show similar tendencies. Hierarchical clustering is chosen as it creates a set of nested clusters that can be shown in a hierarchical tree.

One of the cluster analysis outputs – dendrogram showing connections between different observations (regions) – will be used to give possibility to visually evaluate, which of the regions are more similar. More detailed statistical measures and indicators will be included to interpret the results based on numeric data. This analysis will give us a possibility to understand, if clusters, that will be formed based on this analysis, will group together municipalities from the same planning regions (Riga, Vidzeme, Kurzeme, Zemgale, Latgale) or they will be mixed differently. This can help us to better understand situation of differences between municipalities and generate ideas what factors should be taken into account when discussing about sustainable and equal development of different regions in Latvia.



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## **EMPLOYEE SATISFACTION: NOT FORTUNE, BUT APPROACH: DEVELOPMENT OF THEORETICAL FRAMEWORK**

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**Keywords:** working circumstances, employee satisfaction and leadership style.

Numerous studies and authors support the idea that there is a link between employee satisfaction and leadership styles. Furthermore, managers, their beliefs and leadership styles predetermine working circumstances which could lead (as one of the reasons) to employee dis- or satisfaction. The main statement of the underlying research paper is that employee satisfaction is not fortune but approach meaning that employee satisfaction can and should be managed and increased.

Thus, the main subject is employee satisfaction in the company they work for. The investigation of working circumstances and conditions and their influence on employee satisfaction is the core topic. Therefore, the current research aims to investigate these interactions by using a secondary data analysis based on the relevant sources of information (development of theoretical framework based on literature review). The crucial question is whether there is any mix of methods or working circumstances which definitely lead to more employee satisfaction.



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## **APPLICATION OF PROJECT MANAGEMENT MODELS – AN IMPROVEMENT TO THE PROJECT MANAGEMENT PROCESS**

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**Keywords:** project management model, project management process.

The modern-day project management is unimaginable without the application of project management models. There are several project management models, which are applied in particular projects depending on various criteria such as the project's size, industry of operation, and national or international scale of activities. The choice of an appropriate project management model is critical in achieving successful project implementation.

The purpose of this article is to compare project management models based on analysis of literature, and to study the application of project management models in projects.

The performed study revealed that projects are more successful when project management models are applied in projects, as a result of which the projects can be finished on their scheduled time and not exceeding the necessary resources, which in its turn keeps down the projects' total expenses and improves the project management process.



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## IMPLICATIONS FOR PUBLIC ADMINISTRATION WITHIN EU RESEARCH POLICY – STUDY OF ETHICAL ASPECTS IN THE GOVERNANCE OF EU 7<sup>TH</sup> FRAMEWORK TECHNOLOGICAL PROJECTS

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**Keywords:** public administration, ethical framework, technological research and development.

The paper is devoted to the public administration issues in the implementation of EU research policy, specifically dealing with the ethical aspects in the governance of EU 7<sup>th</sup> Framework Program (FP7) technological projects. The present research primarily was carried out within the framework of the European Union FP Project “The Ethical Governance of Technologies” (EGAIS, <http://www.egais-project.eu/>) under the supervision of Professor Philippe Goujon, research director at University of Namur, Belgium.

Ethics, which is becoming an increasingly important sphere in public administration, has its specific aspects regarding public administration of technological research. This is due to the fact that the results of technological research today are almost ubiquitous (for example, regarding the ambient intelligence), and that the public administrations have to effectively manage the potentially non-unambiguous impacts of technological research on the lives of people, as pointed out, for example, in the Communication of the European Commission on the Precautionary Principle.

Consequently, the focus of the paper is on the ethical framing of the EU FP7 – how ethics is being conceived and implemented by public administrators in the field of technological research. Analysis of the EU FP7 ethical framing: 1) from the historical point of view (historical contextualization); 2) from the normative point of view (normative contextualization) and 3) from the process point of view (process contextualisation) has been performed.

By historical contextualisation we have drawn the general landscape of the emergence and legitimation of ethical framework as relevant to the overall EU research policy. We have presented our vision of why and how the issue of ethics became part of the EU political agenda.

By the normative contextualisation we have presented the EU vision on how the ethical issues should be addressed in the implementation of the actual EU research policy, and more specifically, regarding the FP7. We have analysed the relevant legal framework, as well as related reports, statements and other documents and interviews with EU officials. With this we have presented the conceived EU policy approach.

By the process contextualisation we have presented our findings on how the actual implementation of the respective EU research policy concerning ethics in the governance of the EU FP7 functions in reality, and what are the actual results of this policy implementation.

This overall contextual analysis has allowed us to determine how efficiently the respective EU FP7 normative framing is being implemented by public administrations – from the perspective of impact analysis by relevant EU reports, as well as from the point of view of EU officials and experts involved in the practical implementation of the ethical framework of the FP7.

Research methods applied: scientific literature and research project results studies, case studies, as well as the application of qualitative research methods: structured interviews of EU experts and officials.



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## ADOPTING CUSTOMER SATISFACTION SURVEYS TO MEASURE EMPLOYEE SATISFACTION

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**Keywords:** employee-satisfaction, employee-feedback, 360-feedback, net promoter score.

The “War for Talent” is becoming a reality for more and more organizations. Competition in finding, hiring and maintaining the most talented employees has become stronger and the value of human capital has grown significantly within the last century, especially in the First World. The increase in workforce mobility and an increase in the diversification of the workforce make it easier for employees to change jobs. To attract the “best talent”, more companies are creating initiatives targeted towards the acquisition of highly qualified specialists and managers. This growing trend encourages employees to think about continuing their career in another organization.

Under the light of these limitations, there should be a stronger focus on retaining employees already working for the organization. Therefore, employee satisfaction is becoming a crucial indicator for a company’s success and it is important to accurately measure it on a regular basis to ensure a “healthy” workforce for the survival of the organization. To measure employee satisfaction, companies use 360-degree feedback or employee surveys in written and oral form. These surveys vary by organization and by goal of the measurement. Considering the importance these indicators, current measurement methods are very extensive and need a lot of time to evaluate. Results need to be interpreted by professional market researchers and to be carefully communicated. As supplement to these measures, there should be an indicator, which is quick and easy to assess, clear to understand within the whole company to give a permanent pulse check to management, similar to current customer satisfaction research. Customer satisfaction research has developed some research approaches which could be easily adapted to measuring employee satisfaction.

In the paper to be presented, I will cover the research approaches of quantitative customer satisfaction surveys, which are far more advanced than employee satisfaction surveys, evaluate them on their adaptability to employee satisfaction factors and provide potential ways of adapting these methods to employee satisfaction research. In the process of the analysis, focus will be set on the potential of the design of new employee satisfaction questionnaires whether they demonstrate the qualities indicated above: an easy collection and evaluation as well as easy to understand and adapt results. This paper will give an extensive overview on potential developments of new employee satisfaction questionnaires like the net promoter score, deriving the need for these new indicators, describing its pros and cons and presenting a lookout on future developments.

Goal is to deliver a conceptual framework on how employee satisfaction surveys could be adjusted by the model of customer satisfaction surveys to provide faster but still accurate results. However, these suggestions will not be implemented and tested for the presentation of this paper. This will have to be done in the next step.



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## MULTISTATUS LIFE TABLES FOR MODELLING HIGHER EDUCATION: METHODOLOGICAL ISSUES

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**Keywords:** multistate life tables, tertiary education, gender.

Multi state life table is an extended model of the classical life table technique. The application of the multistate method includes diverse subject matters related to various fields in demography. There is a high potential for applying multistate models to the education progression analysis, but it has not been done extensively so far. The author defines and describes three complementary specifications of multistate model for modelling study career and analysing student progression through Latvian higher education system. The three developed models allow computing tertiary schooling time expectancy, dropout rates by study years, completion probabilities and other life table parameters for studies in Latvia. The author discusses the methodology, assumptions, limitations, and data requirements.

The developed approach is applied on University of Latvia student data by computing education life tables (common for both genders, and for genders separately) hence testing the fit and obtaining results for LU. In this article the author provides examples of the results.



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## HYDROGEN AS ENERGY CARRIER IMPLEMENTATION POSSIBILITIES DURING THE ECONOMY RECOVERY

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**Keywords:** marketing research, hydrogen energy, economy recovery.

Latvia is dependent on the import of primary energy resources and during the economic recession situation becomes more serious, because of two reasons. Prices of energy increase but GDP decrease and in result energy becomes more expensive than in positive and stable economic situation. It is time to choose another way to satisfy the demand of energy? The main goal of Latvian energy policy is to ensure safe and environmentally friendly long-term energy supply at cost-effective prices. Contributing to enhance competitiveness and ensuring safe energy transit business (from Latvian Energy Efficiency Strategy, published in 2000). Official Latvian Renewable Energy strategy is still under development, but non-state organizations by help of Nordic Energy Council presented "Sustainable energy strategy for Latvia's: vision 2050" (2009). Also research on "Latvian model of use of renewable energy sources and introduction of energy efficiency increase till 2020" was made by Institute of Energy Systems and Environment at Riga Technical University (2008). Substantial increase of the role of biomass combined heat and a power (CHP) plants are planned to decrease an importance of natural gas CHP plants and networks (they would be transformed for usage and transportation of hydrogen or biogas). Ministry of Economics of Republic of Latvia drafted the document "Guidelines for Energy Development 2007- 2016. The hydrogen production, storage, transport and use of facilities and grounds in Latvia" listed as one of the most developed and stimulated directions. The hydrogen-related Latvian scientists are working over the past decade as Research of hydrogen technologies in advances made by the practical use of real life were not initiated in the Latvian economy upturn period. To ascertain society opinion a research was done in 2008 which shows that currently consumers chose to buy the check-known non-renewable energy resources but in the nearest future are interested in considering alternative energy options.

During the economic recovery the society is looking for new, alternative solutions to save resources including energy. Hydrogen as an energy carrier combined with the acquisition of alternative energy options (solar, wind) can be directed to this market as a widely used type of energy substitute product. In the world there are examples of good practice which Latvia could take as an example. Analysis was made about hydrogen as an energy carrier in alternative energy and opportunities were investigated to explore potential markets. Research methods used: expert survey, the market price survey and the detection of the alternative price. Hydrogen technology implementation requires initial capital. The results of expert surveys show that the society tends to accept hydrogen as the nearest future alternative energy carrier. Because of hydrogen being a cost-effective, advantageous and environmental friendly energy possibility. Focus group discussion shows that the respondents are accustomed to electronic networks of electricity supplied thereby hydrogen as an alternative energy carrier peeks sceptical for current situation. Hydrogen implementation in the market during the economic recession wouldn't be possible in terms of hydrogen current production price. Marketing efforts could be useful to convince people for possibilities to use hydrogen.



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## CHANGES IN MORTALITY AND MORBIDITY FROM INFECTIOUS DISEASES DURING THE TRANSITION IN THE THREE BALTIC COUNTRIES: COMPARATIVE STUDY

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**Keywords:** infectious diseases, mortality, morbidity, Baltic countries.

The purpose of this study is to give a comparative analysis about changes in mortality and morbidity from infectious diseases in Latvia Estonia and Lithuania, compared with Poland, Finland, Sweden, Belarus and Russia, to point main trends and define main causes of the changes. For the study main infectious diseases: HIV, AIDS, Tuberculosis, Diphtheria, Hepatitis B, C had been selected.

Since 1991, when Estonia, Latvia and Lithuania regained independence from the Soviet Union, significant changes were experienced. Social and economic reforms of the 1990s have had a dramatic impact on almost all aspects of life – labor market, pension system and health-care system.

With the independence renewal income inequality has increased substantially, but fast transition to market economy had a negative impact on population well-being and caused life expectancy decrease in many countries of post-communist space. During 1990-1995 life expectancy for both sexes fell by 2.2 years in Estonia, 2.4 years in Lithuania and 3.2 years in Latvia.

Tuberculosis incidence in the Baltic countries, Belarus and Russia rise sharply during the 1990s. Among determinants of such rise were economic recession, malnutrition, poor living conditions and overcrowding in prisons. Shortages of drugs and laboratory supplies also contributed to inadequate tuberculosis control. In contrast to other communicable diseases, the incidence of tuberculosis has remained relatively high.

During the first half of 1990s Baltic countries have experienced relatively low figures of human immunodeficiency virus (HIV) incidence. Among these countries, highest incidence rates were found in Sweden. Rapid HIV increase started in Estonia and Latvia since 1999, while in Lithuania it remained at relative low level. In 2001 number of diagnosed HIV cases per 100 000 peaked in Estonia and HIV epidemic was declared. It was caused by expanding injecting drug use and transmitted mainly through the sharing of contaminated needles and syringes. HIV infection prevailed among people under 25 years of age, and proportion of women among newly infected persons had been increasing. Despite the significant improvements, Estonia still has the highest HIV incidence among the Baltic countries.

Compared with the situation in the late 1990s and early 2000s, the epidemiological situation for most communicable diseases in the Baltic Sea area has improved significantly. The decrease in incidence rates has been most notable in the eastern part of the area, especially due to blood-borne and sexually transmitted infections such as HIV and viral hepatitis. A combination of effective preventive measures and decrease in numbers of drug users was the main reason of this improvement. In contrast to other communicable diseases, the incidence of tuberculosis has remained high in the area. The spread of tuberculosis and HIV infection still represent one of the most important public health challenges in the Baltic Sea area.



## KEY FACTORS AFFECTING DEVELOPMENT OF THE ENTERPRISE INNOVATION CAPACITY

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**Keywords:** innovation capacity, enterprise, factor analysis, competitive advantage.

Innovation is one of major relevance for firms, as it can be treated as a the source of additional revenues from new products or services, and along with this it can help to save costs or even improve the quality of existing business processes. [1] In reality, innovation is the most effective way for enterprises to improve their competitiveness in a highly turbulent environment. Innovation is a source of competitive advantage for businesses. [2] Under the conditions of increasingly intensified globalization, fast changing technological landscape and continuous market and customer needs for new products/services, academics as well as practitioners agree that enterprises have to innovate if they are eager to prosper and survive, in the modern dynamic environment. [3] That is why it is quite vital to find those factors, which significantly contribute to the innovativeness of organizations. A wide range of scientific published articles, which aimed to provide different theoretical findings and practices of innovative economies, revealed that organizational culture, entrepreneurship and market orientation are the most vital factors that affect on the organizational innovation capacity and sustained competitive advantage in modern economy. [4] Research on innovation has been conducted to investigate and examine what policy initiatives and infrastructure may originate innovation, what organizational culture is appropriate to innovation and what recourses are needed to wake up the innovative potential.

In the context of the paper there were applied such economic science quantitative and qualitative **research methods** as monographic, grouping, reference, generalization, graphical analysis and content analysis.

**The purpose** of the paper – to analyze the theoretic aspects of the factors have an impact on enterprise innovation creation.

**The main tasks** of the paper are stated as following: to investigate of the main theoretical aspect of the concept of innovation; to analyse those factors, which significantly contribute to the innovativeness of enterprises; provide the review of the empirical findings of factors impact on innovation creation.

In the context of the paper main attention was driven to analysis of the definitions of the innovation. The second part revealed the nature of the most important factor influence on the innovation capability. The paper reveals the wide range of innovation definition as well as stress out the importance of analysis of key factors that may have a high impact on enterprise innovation creation.

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## VOLUNTEERS WITHIN AN ORGANIZATIONAL CONTEXT – ONE TERM IS NOT ENOUGH

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**Keywords:** voluntarism, volunteers, nonprofit organization.

When talking about nonprofit organizations and their staff it is obvious to talk about volunteers.

“Volunteering is any activity in which time is given freely to benefit another person, group, or organization” [1]. The most obvious formal characteristic is the absence of pay. Volunteers perform work not for pay. They gain their income from another job. Within the literature there exist different points of view to define volunteers [2]. Volunteers contribute by high percentage to the success of nonprofit organizations. Nevertheless actual changes in culture and society have an impact on the attitude of people towards volunteerism. Consequently the characteristics for the definition of volunteering might have to be adapted.

Within nonprofit organizations volunteers perform work in different levels of organizations and tasks or jobs. They can work only for projects or act in long-term assistance, e.g. daily, weekly, or a longer period or they even lead such an organization in the function of a board member.

Volunteers can assist paid staff as well as provide services like paid staff because of the absence of paid staff. The English language uses only one term for different assignments of volunteers in organizations even the meaning behind is very broad and not restricted. The German language on the contrary provides at least two different terms implicating different meanings when talking about volunteers “Freiwillige, Ehrenamtliche” [3], although the discussion about a common meaning is the same. The contribution of this paper is the idea of an advanced nomenclature for the term “volunteer” within an organizational context. It presents new terms for different groups of volunteers in relation to their commitment. The base of this new nomenclature is a range of elements which lead to several groups of volunteers: Distinctive features are time and frequency of engagement, qualifications needed, position within the organization, function, responsibility of a voluntary position, procedure of appointment. The higher the position and the commitment the less it is possible to talk about a volunteer in the original sense.

The advantage of this new set of terms is that it facilitates communication within this field. The meaning of these terms will be shown by an example of nonprofit organizations (Alpine Clubs) where volunteers work in different levels within one organization.

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## HUMAN CAPITAL AND LABOUR QUALITY MEASUREMENT PROBLEMS IN LATVIA

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**Keywords:** human capital, labour, quality measurement.

Society cannot develop without the division of human capital and labour, because they are determinants for economic growth. To ensure sustainable development in Latvia there is need to use available resources – human capital and labour, taking into account that amount of inhabitants decrease and share of old people increase. Human capital includes education, skills, competencies, and knowledge and these qualities are crucial to support economic growth and transition to knowledge-based economics. The importance of labour quality has been understandable by the development of human capital models, which relate productivity and wage rates to characteristics such as education and work experience. One of the challenges in understanding human capital and labour quality is to know how to measure the quality, because human capital may affect growth performance through different channels. Economists have devoted considerable attention to understand how human capital affects a variety of economic outcomes and have long been interested in economy-wide indices of labour quality. One of the explanations is that growth in labour input can be achieved by increasing working hours or improvement of quality of the working hours. Measuring differences in labour quality there is also a challenge to explain economic growth. Meanwhile economic researches on human capital and labour quality mainly depend on available statistical data over definite time periods. Structure of Latvian economy and distribution of labour in it since 1990 has significantly changed also facing several economic crises which also raise difficulties to adopt labour quality measurements.



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## SUSTAINABLE REAL EFFECTIVE EXCHANGE RATE IN LATVIA

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**Keywords:** equilibrium real exchange rate, panel data analysis, Latvia.

There are several ways how to estimate equilibrium exchange rate. Previous author's studies were based on FEER (the Fundamental Equilibrium Exchange Rate) and BEER (the Behavioral Equilibrium Exchange Rate) methodologies, and some assumptions in these approaches can be questionable.

The aim of the article is to estimate sustainable real effective exchange rate of the Latvian Lat, using a set of economic fundamentals: net external debt, the stock of net foreign direct investment, terms of trade, international interest rates, and domestic and external demand variables and others.

Introducing several simulation scenarios we analyze misalignments of lat for period 2000 – 2010.



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## IMPACT OF ELECTRONICALLY SUBSTITUTION ON POSTAL OPERATORS – AUSTRIAN AND US MARKET

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**Keywords:** electronically substitution, mail volume, different clusters, three scenarios, mail turnover, US and 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 US and Austrian market in order to figure out the intensity of that potential threat by analyzing the symptoms within two different markets.



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## MEASURING TEAM PERFORMANCE UNDER THE DETERMINE OF BEHAVIOR A RESULT OF A PRE-TEST SURVEY

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**Keywords:** Human Resource Management, Team Performance, measurement, behavior.

Human Resources Management, the economy and large organizations are still facing and driving a dramatic change based on the financial and nowadays world challenges. Behavioral Economics is entering sustainable more and more daily business into organizations. Teams have played since the 1940s a continuously important role and the use of formal developed teams in organization has increased. Due to glocalization, the meaning of team performance and measuring it including the behavioral aspect are coming into forehand. In the past decade the interest of Team Performance rose consequently. This papers is a continued research approach of measuring team performance under the determine behavior based on some pre-defined hypothesizes. It measures behavior in team performance on a Pre-Test level by a survey in software population chosen randomly. The questions are based on key hypothesizes – described in the paper – and evaluated. The small population delivers a trend to continue research in Team Performance under determine behavior and forcing the next step into a bigger survey.

**Design/methodology/approach.** This paper is based on survey placed in a software organization. The survey is a Pre-Test result in measuring Team Performance under the determine of behavior. The survey questions are shown. The key questions are delivery as well as the key measurable findings.

**Findings.** First, it is briefly described the key aspect of Team Performance and the entrance ob Behavior Economics. Secondly, the key hypothesis of behavior in regards of Team Performance is positioned. Next, the survey is described to measure the behavior aspect in the field of Team Performance under respect and definition of the hypothesis, and lastly the key figures of the Pre-Test Survey is presented to trigger and initiate the proposal for the next step in the research of measuring Team Performance under the determine of behavior.

**Originality/value.** The paper examines the importance of behavior ties to measure Team Performance under the determine of behavior a present a measurable result.

**Paper Type.** Empirical Research Paper.



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## MARKETING COMMUNICATIONS WITH INTERNET USERS

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**Keywords:** marketing communications, internet users, internet usage (aims and activity).

The objective of this article is to define marketing communications within an internet to reach particular user groups and indicate problems related to integration of marketing communication to e-environment. Article analyzes internet users as a target audience for marketing communications and internet resources as a marketing tool.

In the beginning of paper authors examine the total reach of the Internet audience about Latvia's population, distinguished audience of the different groups depending on the frequency of Internet use. Also article compares the findings with similar data for European countries and other regions of the world. Further in the article, the authors investigate the different socioeconomic characteristics of the active Internet audience in Latvia, such as: demographic, geographic, social and economic. All characteristics were examined in dynamics of several years. The article comprises data from researches and scientific publications on internet usage, and field statistics from year 2005.

Based on analysis authors of the article provide a model of marketing communications on the internet to increase its efficiency.



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## THE INFLUENCE OF INTELLECTUAL CAPITAL TO STOCK MARKET PERFORMANCE IN BALTIC COUNTRIES DURING FINANCIAL CRISIS

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**Keywords:** intellectual capital, stock market, financial crisis.

There is increasing evidence that the major drivers of value creation in present decade focus on firm's intangible assets rather than its physical tangible. My studies of listed companies across the Baltic region consistently find significant difference between the accounting book value of companies and their market value.

The purpose of this empirical study is to investigate the influence of intellectual capital to stock market performance in Baltic countries such as Germany, Denmark, Sweden, Finland, Poland, Lithuania, Latvia and Estonia during last financial crisis. This study uses empirical data from Bloomberg Terminal Platform for data management that cover period of time 2007-2009. This research use quantitative analysis. The population of the research is listed companies concentrated in all-share index in particular national stock exchange of Baltic countries.

In this paper in order to demonstrate link between changes in both IC and stock market performance is used market to book value ratio as a common measure of intellectual capital. According to the results, among the Baltic countries there are two groups: one of emerging countries where higher decrease of intellectual capital value is related with lower rate of return from stock exchange and second of developed countries with higher rate of return is linked with less depreciation of intellectual capital value. Secondly, impact of financial crisis into stock performance lead to changes in value of IC in period of time 2007-2009. Based on this, I divided Baltic countries into three groups: those with positive value of IC during research time, countries with mixed value of IC and last group of countries with negative value. I believe the results of the full research will be significant to practice and fulfill the gap of detailed data about IC for region of Baltic countries.



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## STRATEGY IMPLEMENTATION FACTORS – A LITERATURE REVIEW

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**Keywords:** strategy implementation, process perspective, behavioral perspective, hybrid perspective, success factor.

The author will layout briefly the main strategic management concepts which deal primarily with the question how to identify strategic success factors. For doing so it is important to understand the differences between various strategic management approaches: (a) the market-based view (b) the resources-based view (c) the evolution theory view. [1]

In a next step it is necessary to distinguish between different approaches in strategy implementation. In literature there can be found several definitions but the following three have been cited very often: 1) the process perspective for strategy implementation; 2) the behavior perspective for strategy implementation; 3) an hybrid perspective for strategy implementation. [2]

Based on a literature review on the factors influencing strategy implementation there are several concepts and studies, some by using an analysis of the literature and others using empirical studies. [3] Several studies from Alexander, Al-Ghamdi and Steinle/Thiem/Lange analyzed problems arising in the strategy implementation phase and they are primarily resources related as well as related to communication and leadership.

Newer studies and concepts have taken into account also soft facts and therefore support the evidence of those factors. Of importance especially for applied sciences in this field is the 7-S Model from McKinsey published by Peters & Waterman [4] and a following concept published by Higgins “The Eight ‘S’s of Successful Strategy Execution” [5]. In both models it is described that not only hard facts but also soft facts play a vital role in the strategy implementation. The 7-S Model is split into hard factors (strategy, structure, systems) and soft factors (staff, style, skills, shared values).

Further research in this field has also been accomplished by a working paper from Li et al. with the title “Making Strategy Work: A Literature Review on the Factors Influencing Strategy Implementation.” Herein the authors split literature into two types of strategy implementation studies: (1) those highlighting the importance of individual factors for strategy implementation and (2) those that emphasize the “big picture” of how such factors interrelating and forming a strategic implementation environment.

The most common influencing factors in this study can be split into single and multiple factors. Single factors are listed in the table below.

The criticism about working on a single factor model is that in “real life” there are several multiple related factors and therefore the complexity is much higher. (Li, 2008)

That leads us to the multivariate models where researchers are looking at various variables and activities happening more or less simultaneously. Skivington [6] and Noble [7] for example classify the implementation variables into two dimensions: *framework and process*, but with different content in the categories.

Earlier studies done by Pettigrew [8] group variables into categories like: strategic content, context, process and strategic outcome. Okumus [9] adopts the above framework from Pettigrew but adds three new variables.



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## THE LEGISLATIVE INITIATIVE: EU PRACTICE AND EXPERIENCE OF NGOS IN LATVIA

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**Keywords:** legislative initiative, non- governmental organisations, social partnership.

This paper outlines the legislative initiative, its implementation and possible impact of non-governmental institutions (NGO on changes in the legislation system. [1, 2, 4] The author will discuss the legislative initiative as an instrument that could be used efficiently by (NGO) to influence changes in the legislation in the EU New Member States (NMS). Gained by the Old Member States practical experience in this area will be compared with experience of the NMS and Latvia in particular [5]. The role of the EU institutions in the legislative initiative will be observed. The paper highlights the role of NGO as a social partner in decision - making process. Analysis of the legislative rights implementation in the legal system in Latvia in the context of the EU requirements is provided. The author will pay attention to the fact that the legislative initiative in Latvia is limited according to the Constitution. As it is stated in the 65 article of the Constitution [2], "legal proposal could submitted to the Saeima (Parliament) by the President of the State, Cabinet of Ministers, the Commission of the Parliament and no less then by 5 parliamentarians as well as by one tenth of the voters". The legislative initiative could provide an opportunity to influence directly development of legislation. The paper outlines that a number of legal regulations that delegate legislative initiative to the organisations is limited despite of intensive political discussions and public debates on the issue. For example, the legislative initiative is not delegated to the Employers' Confederation of Latvia (LDDK) that is the biggest organization representing the interests of employers and acts as a partner in socio-economic negotiations with the Parliament (Saeima), the Cabinet of Ministers of Republic of Latvia and Free Trade Union Confederation of Latvia according to the Law on "Employers' Organisations and their Associations Law" (1999) in relation to the article 10 on the Relationship of Employers' Organisations and their Associations with State and Local Government Institutions. [3]

Since Latvia has joined European Union, the scope of the tasks to be implemented by the NGOs has broadened. The strategic aim of the legislative initiative and the role of NGOs is to enhance the level of convergence of welfare in Latvia with the other EU Member States. The paper will discuss the role of the legislative initiative the legislative process and the prospective role of NGOs in the implementation of the legislative initiative in Latvia.

On the basis of the main findings, the paper provides conclusions and suggestions.

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## QUALITY IN AUDITS AND EXTERN QUALITY CONTROL

– *By the special view of small and medium-sized audit companies* –

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**Keywords:** quality in audits, extern quality control in financial audits, small and medium-sized audit companies.

After the spectacular balance scandals in the US and Europe, a discussion about the rise of the quality in financial audits has come up. Even the justifications of the conversions of the EU-directive 2006/43/EC talk about the rise of quality. If you want to take any measurements, which raise the quality of financial audits, it is necessary to determine who understands what is meant by the term “quality”.

What is quality in financial audits? Does this definition distinguish from the sight of the contemplator?

To answer these questions the term quality is to define first.

The German term quality has its origin from the Latin word “qualitas” [1], which means condition, characteristic, property or condition. Because of the different meanings of the words, it is to distinguish between the objective condition of an object and the subjective quality, which means how an object will be perceived and rating by the receiver [2]. Both dimensions of the term quality represent a unit [3].

The business discussion of the question “what is quality?” is about with which criteria a product or a service can be evaluated [3]. In business there is no generally valid understanding of quality.

So a part of the business literature holds the opinion, that fulfilling the expectations of the customers is the only right approach. Peter Drucker [4] defines quality as “Quality in a product or service is not what the suppliers put in, it is what the customer gets out and is willing to pay for it.”

In the business management literature, quality in service is “The ambition of a provider, to develop the constitution of a performance, which needs the participation of the costumer, in a way the costumer expects. It is the addition of characteristics of a service to meet certain requirements.” [5]

In my paper I will discuss the different definitions of the term quality, quality in audits and the extern quality control given by law in the countries Germany, Austria and Latvia. Furthermore it has to be discussed whether extern quality control is even able to raise quality in audits.

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## BANKS' CREDIT POLITICS: CHALLENGES AND SOLUTIONS

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**Keywords:** home loan, credit politic, marketing.

The current financial crises in Latvia presented, that households took out risky loans that were pushed by lenders who didn't care about the riskiness of these loans as they would be packaged and sold.

After the heavy fall in economy 2009 the Latvian commercial banks' mortgage credit portfolios are more prudent and in 2011 the changes in credit politics should continue.

**Purpose.** The changes in the mortgage credit portfolios has taken place with the deepest recession on Latvian economy forcing commercial banks to evaluate their credit politics and home loan products. This paper aims to examine the potential for banks to lend for home purchase and to analyse their prospects. This paper seeks to investigate the extent to which mortgage credit portfolios have been tarnished, and how it has evolved during recession. It aims to take both prospective and retrospective views on what has changed in the Latvians home loan market since the economic downturn, looking at where new potential have been found and where old potential have been lost, and supposing about the range to which banks' behaviour will change.

**Design/methodology/approach.** The paper is based on a variety of statistics and on an overview of banks' home loan products.

**Findings.** This paper discusses changes in banks' credit politics, showing the strict realities of credits with overdue. Also looking at which parts of mortgage loan agreements clauses have been changed and what these changes means for short and medium term futures.

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**MOTIVATION IN THE AUSTRIAN BANKING SECTOR  
WITH REGARDS TO THE TWO FACTOR THEORY  
BY FREDERICK HERZBERG**

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**Keywords:** Frederick Herzberg's Two Factor Theory, Austrian banking sector, motivation.

*Are there any differences in the motivation of younger employees in comparison to the motivation of older employees? Can these differences be explained according to the various motivators of Frederick Herzberg's Two Factor Theory?*

The focus of this paper is on the motivational behavior of younger and older employees in the banking sector. In contrast to other publications on this topic segment, this study forbears from researching motivational backgrounds in general but rather concentrates on the attitudes of bank employees with respect to their age. A primary study was conducted to recognize a tendency or trend in the attitudes of employees in the Austrian banking sector, with the objective to determine a certain causality with reference to motivational theories that are described and discussed in this thesis. Special emphasis is placed on motivational differences of employees who are under 29 years and employees over 40 who are assumed to be less motivated than their younger colleagues with Frederick Herzberg's "Two Factor Theory" serving as the theoretical background. In connection with this theory, it is to be found out whether it is still valid 50 years after its development. Due to the vastness of the topic as well as for the answering the research question of this paper, an extensive literary research is carried out including standard literature and the latest findings in the field of motivation as well as an empirical study.

The findings of the survey suggest various possibilities for improvement as regards the current work situation in the Austrian banking sector. In general the motivators of both younger and employees over 40 are quite similar and their motivation is good. However, there is the potential for improvement. Improvements could be achieved by measures on the part of human resources or the management. Sometimes it would only require minor changes to significantly improve the work situations for younger and older employees.

Even though this paper did not explicitly refer to the complex issue of globalization, it can still be pointed out that motivation is likewise crucial in international enterprises. In this context, it might be interesting to find out if older employees with a long experience in the banking sector compare the current situation to former times and only see the drawbacks of globalization or if they perceive this global phenomenon as a chance of which they avail themselves.

Major differences in the motivators according to Frederick Herzberg could not be compared as was discussed in the beginning of the thesis. Motivators do change satisfaction but their absence does not necessarily lead to dissatisfaction which is clearly reflected by the findings of the study. It was also confirmed in the findings that growth and complacency are at the center as was stated by Herzberg.



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## CHANGE MANAGEMENT ISSUES OF RECENT RESTRUCTURING AND EFFICIENCY MEASURES IN PUBLIC ADMINISTRATION OF LATVIA

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**Keywords:** Public sector, change process, efficiency, performance management, restructuring, motivation.

Public sector in Latvia has undergone significant process of change. Crises period required to implement range of measures with the aim to achieve decrease of public sector expenditure and increase efficiency of public administration. The main activities implemented by public sector were significant cut of salaries of public sector employees, redundancies and restructuring.

The change process took place in a very short period of time with significant pressure from stakeholders and media. It made significant impact on motivation of public sector employees.

The purpose of the article is to present the main results of the research that was carried out in the public sector of Latvia on existing performance management system and changes to be implemented to ensure improvement of the system to meet the requirements put on the public sector by the economic situation and stakeholders.

The introduction of new management tools like performance appraisal is major change process which requires the right change planning and implementation approach as well as committed and well trained managers.

The research data for the part of recent experience of public sector change management process were gathered using the method of structured individual interviews. The research studied the positive and negative aspects of change management process in a view of senior managers and stakeholders.



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## COMPLEXITY OF NEGOTIATION AND NEGOTIATION OF COMPLEXITY. GETTING TO TRUST...

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**Keywords:** complexity, negotiation, cybernetics, agents and trust.

Negotiation is back and forth communication. [1, p. 279]. Communication is ubiquitous, we communicate even if we do not want to or do not intend to communicate. Thus communication is unavoidable. We negotiate not only with other individuals on daily basis, but we negotiate with ourselves. We can also observe negotiation as managing *complexity*. However, complexity is more than the buzzword understanding. To reduce the complexity of complexity, the author emphasizes this hypothesis: Complexity is an adoptive-, self-organizing-, emergent-, unpredictable (and complex system (s)'s or) agent (s)'s number of possible states, parts, behaviours, interactions, variables, varieties, and choices, which need to be attenuated, absorbed and observed for the system to be under control or for the objective to be of mutual satisfactory result between the agent agent's interaction, agent machine's interaction or agent and environment's interaction. In negotiation, information is critical. Agents often have information they do not need and want, vice versa, but above all information they want is information they do not need. The challenge is to obtain information that an agent actually needs and they are more than he wants to pay for or the situation he will be in, if he tries to obtain them, thus obtaining information is giving information. [2. p. 229] Interaction of any form is communication; only through communication control (Used as a cybernetic term, means; navigating and steering an organization) is maintained and executed. Knowing "*The Best Alternative to a Negotiated Agreement*" (BATNA) [3. p. 97] of one- self's and/ or an opposed agents may reduce a vast amount of variety (used as a cybernetic term, means; number of possible states for a system to be under control) for *the negotiation system*, thus it requires precise assumptions, which also must have the capacity to be questioned. However, negotiation is about a win-win game and agents are better served if their interaction is about increasing their number of choices on mutually basis.

**Purpose.** The purpose of the author is to underpin and substantiate the claim that in order to navigate organizations for success and survival, we must negotiate since we control organizations through communication and communication requires negotiation. **Findings.** Negotiation is a complex but necessary task. Agents, managers, politicians and mediators must negotiate for organizational. There are some essential, critical and necessary steps and information, which bring agents in a situation of absorbed complexity. These steps are trust, computing and relaying on environmental regularity and all agents BATNA. Real case studies are investigated. **Originality/value.** There is almost no Ivey League University in the Western world, which does not offer a program for successful negotiation. This research from a cybernetic and systemic lens is among the very dynamic and fresh approaches to negotiation.

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## EFFECTIVE BUSINESS COMMUNICATION INFLUENCE ON COMPANY MANAGEMENT

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**Keywords:** business communication, online communication, face-to-face communication, management.

Productive management communication has been studied in academic research as it is one of the key factors for effective entrepreneurship realisation. Research has confirmed that companies which realises effective communication cost – effectiveness has been raised by 47% in comparison with the companies which have weaker communication programme or do not have it. Recent development of technologies and communication tools has developed new approaches and more effective tools for business communication which has been examined also in academic research and scientific publications as well as mentioned by entrepreneurs and company managers. Often in research are examined obstacles bothering effective business communication: among them – personal factors, differences in life perceptions, different communication skills, different experience and validity of information sources, demographic differences. There exist some differences in productive management communication related to historical traditions and values. Authors have made empirical research to examine influence and significance of mentioned above factors for entrepreneurs in Latvia with special attention to productive management communication: online and face – to face. Results of survey of 646 entrepreneurs will be used for data analysis, as well as structured interviews will be used to develop more detailed questionnaire for deeper research of business communication. Research methods used: academic publications analysis, survey of entrepreneurs, structured interviews of entrepreneurs. For data processing used methods: descriptive statistics – indicators of central tendency or location and indicators of variability.



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## TRUST MARKETING FOR HIGH-RISK PRODUCTS: A CROSS INDUSTRY MARKETING FRAMEWORK VALIDATION

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**Keywords:** marketing, trust, sales.

Many products involve such a high risk to 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, Luhmann [1] proposes trust as a solution for such situations “where the possible damage may be greater than the advantage”. Thus if marketing would be able to build-up customer trust in risk-intense products a significant problem for corresponding companies would be solved.

In this paper the author proposes the Trust Triangle marketing framework consisting of the four marketing strategies: reframing, experiencing, involving and mitigating. The marketing framework builds upon the interdisciplinary trust model from McKnight and Chervany [2] and their findings on trusting beliefs. Trusting beliefs are the beliefs of an individual that “...the other person has one or more traits desirable to one in a situation in which negative consequences are possible” (McKnight and Chervany [2]) and therefore make it easier for the trustor to trust the trustee.

In this paper the marketing framework gets empirically tested via expert interviews across 15 industries on its applicability to build up customer trust for high-risk products.

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## EMPLOYERS COMPANY IMAGE – SUPPORTING FACTOR FOR EMPLOYEES MOTIVATION

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**Keywords:** human resource management; personnel motivation; company image.

The speedy development of modern telecommunication technologies in the world as well as in Latvia has led to struggle and close contest in today's telecommunication industry. Telecommunication companies demand that their staff would be educated, creative, efficient, motivated and loyal. Preparation of good practitioners able to perform activities for creation of competitive products and services takes time and huge efforts. Companies are interested to keep their professional staff for the company development. For that efficient motivation ways and means are needed. To keep so good and motivated staff besides material and moral motivators is important also company image in the eyes of the current employees as well as in the minds of general public where are also possible future employees, but of course, current service users.

The purpose of the study was to explore relationships between motivation factors and company image; examine factors that are associated with likelihood that employees will engage in effective and efficient business performance. Author compared findings on factors associated with likelihood that employees will engage in effective and efficient business performance and analyzed what are the relationships among – motivation and company image in telecommunication and other industries in Latvia. Research methods used: scientific literature review, survey of employees (1985 surveys is used for empirical data analysis). The following measures were used to: 1) list of motivators; 2) list of statements on skills, engagement and resources available in company; 3) perceptual performance; 4) demographic profile of sample (age, gender, occupational type and detailed information on position, education, income, and industry). The respondents were asked to use 7-point scale ranging from 1 – inapplicable to 7 – applicable in higher extent to indicate which motivational instruments are applied in current working place. Skills were evaluated in 7-point scale, where 1 – strongly disagree and 7 – strongly agree. For data analysis indicators of central tendency or location and indicators of variability were used, as well as cross-tabulations, multivariate analysis: factor analysis, correlation analysis and variance analysis are used.



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## THE PROPOSALS FOR USING FISCAL STIMULI TO PROMOTE LATVIA'S NATIONAL COMPETITIVENESS

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**Keywords:** national competitiveness, pillars of competitiveness, fiscal stimuli, tax credits, Porter's Diamond.

This paper contains the proposals for using fiscal stimuli to promote national competitiveness. The theoretical background of proposals is author's elaborated methodology how to choose most effective fiscal stimuli and which goals could be obtain by using different fiscal stimuli.

The author's methodology is based on compatibility of Porter's Diamond and pillars of competitiveness which are elaborated in the Global Competitiveness Report. The author puts the pillars of competitiveness into four facets of Diamond and obtains the ideal Diamond of national advantages of ideal country. The author elaborated the fiscal stimuli for each facet of Diamond. In that way one can see which fiscal stimuli influence which facet and relevant pillars of competitiveness. The choice of facet (and accordingly pillars of competitiveness) which should be currently stimulated and the choice of relevant fiscal stimuli depends on strength of Diamond of concrete country, national priorities and financial situation.

The main fiscal stimuli to promote Latvia's national competitiveness are: tax reliefs and tax credits, state's investments, grants and subsidies, support of export, EU structural funds and public procurement.

The main proposals to promote national competitiveness of Latvia are to introduce system of tax incentives in order to stimulate entrepreneurs invest in R&D and to create friendly environment for innovative entrepreneurship. Also Latvia should strengthen factor facet by using state investments in order to develop infrastructure of innovative entrepreneurship.



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## APPLICATION OF STATE AID FOR MAJOR TRANSPORT INFRASTRUCTURE PROJECTS IN LATVIA

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**Keywords:** State aid, transport infrastructure, maritime transport.

State aid according to European Community Treaty is a financial aid granted by a Member State through state, municipality or European Community resources in any form, directly or indirectly, which distorts or threatens to distort competition by favouring certain undertakings.

Such support is classifiable as State aid when it meets the following cumulative criteria: use of public resources; economic advantage favouring certain undertakings; selectivity (favouring certain undertakings or production of certain goods); distortion of competition and affection of trade between Member States.

This paper includes current issues with regard to application of State aid in Latvian transport sub-sectors: railway transport, aviation transport and maritime transport. It covers State aid instruments like public service obligations and individual State aid notifications. State aid is analysed in the context of financing of transport sector projects from public sources, in particular the European Union Cohesion Fund.



## DIVERSITY OF ADR SCHEMES: DOES IT MEAN DIVERSITY OF ADR EFFECTIVENESS?

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**Keywords:** consumer protection, alternative dispute resolution, classification.

The European Commission's (hereafter EC) vision declared in the *Consumer Policy Strategy 2007 – 2013* is "to be able to demonstrate to all European Union (hereafter EU) citizens by 2013 that they can shop from anywhere in the EU, from corner-shop to website, confident that they are equally effectively protected". [1]

Today consumers are still precautious to shop cross-border as they lack the information and the knowledge where to turn for help in case of difficulties that could arise if there was a need to resolve cross-border problems such as complaints, returns of faulty products, etc., thus withholding them from enjoying the benefits provided by the Internal Market. [2] [3]

This article is the second article from two which are investigating the issues regarding consumer knowledge and possibilities to turn for help in case of cross-border complaints, over viewing in-depth the concept of ADRs and trying to determine which of the ADRs is the most effective from a consumer cross-border complaint resolution perspective.

The first article was focusing on issues concerning consumer unawareness of redress mechanisms, understanding of the ADR concept and elaboration on characteristics of ADRs which could be classified. Thus the purpose of the article was to develop a classification of consumer ADR schemes in the EU which would demonstratively depict the concept of ADR and the diversity of ADR aspects and help consumers and other stakeholder better understand the concept of ADR.

This article will present the results of a quantitative research, made by the author, which was researching different organizational and procedural aspects of ADRs across the EU. The purpose of this second article is to analyze the results of the research regarding the previously made classification and to determine if there is a correlation between the types of ADRs and the effectiveness of ADRs in the EU.

The research is made from an original and empirical research perspective and data are collected and analyzed with qualitative methods. The results should help consumers and other stakeholders in the process of reviewing the most appropriate ADR for their cross-border dispute resolution and should contribute to the author's further research on the development perspectives of cross-border consumer ADR schemes.

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## MEASURING THE SOURCES OF ECONOMIC GROWTH WITH NON-PARAMETRIC METHODS: THE CASE OF BALTIC STATES

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**Keywords:** economic growth, capital accumulation, efficiency, non-parametric methods, DEA, income convergence.

Non-parametric methods in general and DEA (Data Envelopment Analysis) in particular, are increasingly used in academic literature to measure the sources of economic growth. Under more flexible assumptions as compared to the standard growth accounting framework, it allows to decompose output per hour changes to the changes in inputs (capital stock per hour), as well as contributions of world technical progress and efficiency catch-up (a gradual move of the technically inefficient countries towards a world production frontier). While non-parametric methods so far proved to be a powerful tool to study sources of economic growth, the empirical evidence regarding Eastern European countries, particularly Baltic States, remain scarce. This possibly reflects the lack of reliable capital stock data and short time series in these countries (for example, output per hour could be obtained only as from 2000 for some countries). The paper deals with these difficulties by constructing capital stock series for each of the 30 countries in consideration (EU-27 as well as Norway, US and Japan), by filtering out the impact of economic cycle and by extrapolating the amount of hours worked using available employment data from national accounts. Capital stock time series for each country were constructed by econometric estimation of initial capital to GDP ratio and capital depreciation rate which was assumed to be constant over time but allowed to differ between countries. Moreover, the paper corrects output data for the economic structure effect and different endowment of natural resources, i.e. paper distinguishes the technical inefficiency from the unproductive economic structure and resource rent windfalls.

It was found that during the recent 10 years the main growth engine in the Baltic States was capital accumulation. Although the contribution of efficiency is positive during 2000 – 2010 period on average, it played only a minor role in the income catch-up process, even turning to marginally negative values at the second half of 2000-ties in Latvia and Lithuania, but continued to be positive in Estonia. Regarding capital depreciation rates in the Baltic States, it was found to significantly surpass 10% threshold usually assumed in a growth accounting framework. The paper also finds some evidence in favor of capital-augmenting technical progress implying that only capital-abundant countries could benefit from the technology driven upward shifts of world production frontier. Thus, the convergence of capital / labour ratios of Baltic States to the EU average level is a necessary tool for income convergence not only because a direct effect (capital per hour increases output per hour) but also due to an indirect effect (higher capital / labour ratios would allow the Baltic States to benefit from an upward shifts of world technology frontier).



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## MUNICIPALITY FUNCTIONS AND ROLE IN ACOUSTICALLY CONGENIAL LIFE ENVIRONMENT PROVISION

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**Keywords:** municipality, role, capacity, noise management, quality of life.

The environmental noise management duty for municipalities is defined in EU and national legislation only for cities or agglomerations with more than 100 thousand inhabitants. Meanwhile the national laws assign governing functions for all municipalities to ensure congenial life environment for their inhabitants and thus determine municipalities' obligation to participate in noise management processes. Unlike other environmental issues, environmental noise influence is dependant from noise receiver's subjective perception. This is one of the main aspects which determine noise management necessity as well as its complexity. Noise influence are dependent not only from receiver's organism specifics and state of health, but also from such external factors as information quality and public opinion about noise pollutant, possible or existing benefits from noise agent, residential building technical condition, etc.

The municipality plays an important role in environmental noise management process because of its legal actions in spatial and development planning, conforming enterprising in their territory, adjudicating the claims of inhabitants as well as local environment protecting. At the same time, municipality advocates society interests and searches for the balance between business and infrastructure development and satisfaction of the needs of local residents, which receive noise impact and have their life quality endangered.

On the one hand municipality as an institution with its own activities influences several components of congenial life environment provision process. On the other hand, external factors (for instance, activities of noise causative agent) urge municipality to act in one or other way.

Meanwhile the review of actual situation shows that noise management issues are at the very bottom in municipality's priority action scale and noise management process are ensured only theoretically. It should be mentioned that municipality's resource capacity for environmental issue management is insufficient and can cause the impairment of life quality for municipality dwellers.

Mentioned above clearly illustrates the need to develop action planning and implementation toolkit for environmental noise management in municipalities. The toolkit should be easily adaptable to municipality local specifics.

In accordance with all mentioned, the objective of this research paper is to contribute municipality noise management actions in order to provide acoustically safe and congenial environment. The objective is attained by describing municipality role and functions, evaluating actual function fulfillment, analyzing best practice examples as well as contributing suggestions for noise management process improvement.



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## MANAGEMENT TOOLS FOR TRADE ENTERPRISE: BASIC FEATURES AND DEVELOPMENT POSSIBILITIES

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**Keywords:** Total Quality Management, management tools, trade enterprise management, competitiveness.

Before the economic crises that influenced most of Latvian companies already in the years 2007 there was a rapid growth of the economy in the beginning of XXI century, that have created a great development possibilities for Latvian trade companies. The growth of the economy gave great possibilities for the development of retail industry and expansion of international retail chains on the Baltic's market. Increased demand for goods from the wholesale trade companies rapidly was limited by the development of retail procurement processes. In order to keep and develop the position on the consumer market today it is very important for the Latvian companies to develop the company's competitiveness. Recent economic crises brought to bankruptcy some of trade companies that were not able to follow the competition. Still those who keep the positions on the market should not only survive but develop the competitiveness in order to insure the steady development of business activities. Most of the companies face the problems of implementation of new models of management due to lack of expert consulting and knowledge about the modern management strategies. Morden researches provide business with new management tools. During the last three decades management tools became the basic part of the manager's day to day life. The current environment of globalization and economic turbulence requires from executives knowledge and thorough choice of management tools for their business. The use of classic strategic planning and well known popular management principles are not enough in today's changing world. Today's executives have to assess customer requirements and to deliver quality for the customer aiming to develop competitive company. The use of quality management tools became necessary complement in today's business in order to enhance the competitiveness of trade enterprise. In order to involve the suitable management model, it is essential for the management of the company to choose and implement the appropriate tool that helps to optimize and create efficient business processes in the enterprise. The paper presents an authors view of combinations of management tools that helps to optimize management processes of trade organization and lead to effective management.



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## COMPLIANCE MANAGEMENT SYSTEM

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**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 program. 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 2004 and this stimulated a large number of studies on compliance matters. There are no academic studies in Latvia or other Baltic countries. 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 system<sup>1</sup>. 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 planned research focuses on the analysis of the research results of studies on following issues: general information, definition and elements of compliance management system and organizational structure.

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<sup>1</sup> A method by which the bank manages the entire compliance process



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## APPLICATION OF NON-CONVENTIONAL METHODS OF TRAINING FOR PERSONNEL TRAINING FOR ADAPTATION TO NEW ECONOMIC CONDITIONS

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**Keywords:** human resource management, non-conventional methods of training, migration.

The new economic situation which has developed recently in Europe demands that personnel have the ability to quickly adapt for a changing situation.

The new tendencies in human resource management require experts with narrow specializations to become flexible professionals who can quickly master new directions. Furthermore, development of technologies demands mobility, knowledge of foreign languages, ability to be quickly retrained and master new, nonexistent before specialities.

The article recommends methods for personnel training devoting minimum time and yielding maximum result.

The current tendency of outflow of labor from Latvia proves the topicality of this article. From the point of view of economic efficiency for the state, it would be more beneficial to export the highly skilled personnel, instead of cheap labor. At the moment, Latvia has all necessary pre-conditions for establishing an efficient system of personnel retraining and successful adaptation to new economic conditions.

People and talent are the key assets of any organisation that keep ensuring it's competitive advantage. It is of paramount importance to understand effective and efficient methods of managing talent and utilising employees' skills and abilities. Talent development is one of the key areas of human resource management. The goal of this thesis is to develop and describe different methods of employees' training and development that would help achieving the best results within a short time period. Over the past twelve years the author conducted a study on non-traditional personnel training and development methods. The approach included both, international and domestic experience, as well as application of theoretical knowledge to develop own training and developments programs. The author aims to establish the optimal way of learning and development, that would not only allow determining what should be learned, but also how it can be achieved. The thesis is based on the author's research carried out between 1999 and 2011. Given research contains data about training 4587 people.



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## STATE EXPORT PROMOTION POLICY IN THE CONTEXT OF THE GROWTH OF ECONOMY

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**Keywords:** export promotion, endogenous growth theory.

The consequences of global economic crises appear in frontline of most countries around the world, pushing the governments to examine the principles, how national economy is functioning and their expenditures for implementing various policies in order to find solutions for efficient budget spending. The positive impact of national export promotion policy on the national economic growth and the arguments for implementing the policy according to endogenous growth theory are examined in this review article. The aim of this Paper is to give theoretical basis for common global tendency for growing number of countries broadening or starting to implement national policies for export promotion as well to point out possible challenges for implementing such policies or risks of sustainable development and growth. In conclusions the insight of possible complications for implementing export promotion policy and risks of sustainable development and growth is provided.



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## INVESTMENT DECISION-MAKING AND DYNAMIC ENVIRONMENT OF EMERGING MARKETS

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**Keywords:** investment decision-making, uncertainty, dynamic environment, emerging market.

Managing through uncertainty is a topic of increasing interest both in academic and industrial ambits. Complex, uncertain, and often contradictory business environment brings challenges that investors have to cope with. Managers and employees are expected to do more with less, to maximize both short-term gain and long-term investment, and be more efficient as well as more humane and ethical. The recent economic crisis just “worsened” the situation changed not only the certain markets but the economic system as a whole. E.g. the pre-crisis level of foreign direct investment in Russia was about \$70 billion per year, and was reduced to \$30 billion in 2008-09 [3]. The Finance Minister of Russia Alexey Kudrin expects to have FDI back at \$60-\$70 billion by 2013 [3]. This refers to the conclusion that the economic crisis caused a decrease in FDI. Thus, it can be pointed out that external environment and uncertainties in regard to this do have an influence on FDI decisions.

Summing all above, the following question will be arisen in the underlying research: *How the investment decisions are made, how do managers proceed with uncertainty in dynamic environment of emerging markets?* For this purpose should be found out how decision makers or entrepreneurs deal successfully in dynamic environment of emerging markets. Famous management books and MBA schools obligate conducting of business plan, of different calculations from risk management and market research. But an interesting issue is, whether all these procedures lead to successful business performance especially if we talk not about developed western countries but e.g. about dynamic environments of emerging markets. Furthermore, Kahneman and Tversky (1979) found that the decision making under uncertainty systematically deviates from these assumptions (analytic procedure, rational decisions) [1]. Saras Sarasvathy also explains that “successful entrepreneurs do not try to predict the future; they try to design the future” [2].

In order to achieve the main purpose of the underlying work the paper will be structured as follows: first, the state of the art in the area of investment decisions and uncertainty (with focus on the Russian market) will be presented. Especial focus will be lie on investment decision making procedure (analytical vs. adaptive approaches) and their implications in regard to dynamic environment of emerging markets. Afterwards, the research design based on secondary data analysis (literature review) will be described, and, finally, the results and main implications from the underlying investigation will be concluded. In closing the paper will suggest directions for future academic research and presents practical managerial applications.

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## TRADE UNION LEADERS' ASSESSMENT OF LATVIAN TRADE UNIONS' STRATEGIC MANAGEMENT ISSUES

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**Keywords:** trade unions, strategic management, mission, objectives.

The article introduces trade union leaders' views on strategic management problems in Latvian trade unions. The aim of the paper is to find out the trade union leaders' views on the strategic management problems within Latvian trade unions. The author analyses the development practices of Latvian trade unions' mission and vision, and establishes Latvian trade union objectives and principles of their development. Leaders' opinions of the following have been found: the necessity of union's internal and external environmental analysis, analytical methods and the process of strategy implementation.

Method of data acquisition: a questionnaire in the form of a structured interview. It has been concluded that the Latvian trade union leaders have not paid sufficient attention to strategic management issues in these non-governmental organizations up to now.



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## **BUSINESS MODELS AND MANAGEMENT OF CONTEMPORARY INTERNATIONAL TOURISM ENTERPRISES**

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**Keywords:** international tourism, globalization, international management, intercultural communication.

International tourism business environment is experiencing complex ongoing changes, related to changing structure of business environment which can be seen as emergence of new market players, changing profile of an international traveler, related to new market player entries, immense technological development allowing business operate in a global market and modifications of international tourism business models in the sense of organizational structures. International tourism has experienced rapid growth during past decades since global market liberalization and continuous change of external business environment determinates need to analyze these ongoing changes from different perspectives, including organizational models of international tourism enterprises. Nowadays, importance of international tourism enterprises that can not be categorized as classical business models is growing. Classical models of tourism organization with clear tourism operator, travel agencies relations are shaped hardly by technological development and development of e-commerce as such, emergence of global wholesalers and formation of hospitality groups or complex holding models encompassing classical business models and modern ones. These forms are among first to be mentioned, however, they do not illustrate completely all possible models how an international tourism enterprise can be managed. Disappearance of strict boundaries of certain business models obviously sets free space for new models of businesses, thus confirming innovative character of international tourism not only in the context of product development, but also organizational structure. Formation of new business models are very often related to internationalization of businesses where there can be identified several aspects that require further attention. Among first to be mentioned are financial perspective and intercultural communication. For enterprises, operating in global markets, intercultural communication skills and competences play an increasing role. This increase is directly related to changing structure of international tourism business environment, emergence of new markets and changes related to profile change of international travelers. Intercultural communication develops into an important aspect both for international relations of an enterprise (business to business relations and business to customer), as well for an organizational structure of an international tourism enterprise with multiple operational offices in different countries, representing different cultures in management style. International businesses more often steps over frame of operation in the same context communication and more often operational activities are run within different communication contexts and cultural groups. Aim of this article is a critical literature review on contemporary business organization models applicable to international tourism organization, focusing on theoretical approaches on structural and operational models. Based on this literature review it is expected to identify the role of intercultural communication in current studies of management forms of international tourism enterprises.



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## ONLINE MILIEU STUDIES. AN APPROACH FOR REVIEWING SOCIAL NETWORKS WITH THE MILEU APPROACH FROM PIERRE BOURDIEU

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**Keywords:** online milieus, social network pages, user behavior, market differentiation, Twitter.

In this article the approach of a way to research milieus in social networks is introduced. For the research in the sector of milieu studies, the approach from the French social scientist Pierre Bourdieu [1], [2] is described under the inspiration from Emile Durkheim [3]. The research has as target to provide a sustainable and approvable description of a further research process which relies on the described theoretical basement.

With the provided approach, the empirical research of milieus in social networks will result in a direction which satisfied the requirements of the statistical research for online milieus. To providing a more targeted outcome, the results of a test survey, which was preceded on the Re:Publica10 [4] in Berlin and which was based on the before mentioned theoretical approaches, was used to determine necessary enhancement on an existing survey for milieu research.

The approach to determine milieus in social networks is necessary to provide valuable information about usage behavior in online networks and has as goal to understand the requirements of users and their motivation for interaction within social networks. Those information can be used to proceed marketing campaigns in the sector of social media more efficient and can be used to support the development of online products for dedicated, targeted or selected customer groups in a direction in which its satisfy the requirements of those groups with a higher efficiency.

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## DEMAND AND ITS ELASTICITY IMPACT FACTOR ANALYSIS

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**Keywords:** demand elasticity, demand impact factors, factor analysis.

Every company is affected by economic, political, technological, cultural and other environments. The cycle's development, the current situation and more importantly the way how those environments will proceed. The environment is not constant and stable. Company's activity is directly dependent on the specified region economic, a social, a technological and on other environments, as well as on the international environment in case of an international business.

An important performance analysis tool is the demand analysis, and here a significant tool is the demand elasticity analysis. Important aspect for the demand elasticity analysis and valuable results acquisition is the possibility to select and identify the factors that have direct influence on a particular company's demand. The analysis will show aspects where company need's to pay attention in order to improve its operations by achieving objectives with a higher level of efficiency.

The literature is distributed to several factor assessment areas what are relevant to the demand, its amount and then also to demand elasticity. There is no exact theory which identifies factors that affect demand and its elasticity, but the literature more or less likely highlights certain factors which impact is assessed as most important.

As one of the most important factor is the price of the product. The price direct effect may occur in assessing the consumer level of income, depending on the elasticity of demand and a price changes impact on the total revenue.

Certain factors can be grouped and studied further by dividing the number of sub-factors. For example, the product type can be studied by assessing the types of products, the degree of substitutability and novelty, the characteristics of quality. Assessing the time as the demand elasticity factor, is released a certain time period of the product use, the time period what is available to a consumer to evaluate alternative proposals, as well as a product life cycle. Also important is a variety of other non-price factors like the product proportion in the consumer's budget, fashion trends, marketing activities, taxation, etc.

The aim of the research is to analyse, estimate and group demand and its elasticity impact factors. To achieve the defined aim we have to take a look on the stated points: define how is formed the exact environment position; determine the influence scale of the different factor and the most important sphere of influence; identify the amount and scale of the necessary information for a research and be aware about the product specification.

In assessing the research results, the author concludes that, factors that effects on demand elasticity can be different and the number varies depending on the product, its nature and the market. There is necessity to analyse as many key factors as possible, using the following criteria for the acquisition of information - actuality, the full amount and credibility.



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## COMPARATIVE ANALYSIS OF TERRITORY DEVELOPMENT EVALUATION INDICES IN LATVIA

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**Keywords:** evaluation indices of territorial development, indicators of development.

The aim of the article is to generalise and compare the methods, which have been used for the last 15 years in calculating the territorial development indices in Latvia, in order to build a systematic framework for further work in this particular direction by identifying the strengths and weaknesses of indices used hitherto. Some scientists and researchers of Latvia, as well as the State Regional Development Agency (SRDA) are working on the alternative methodology of development evaluation and index calculation. The author proposes to use various indices in parallel, in order to evaluate the territorial development in Latvia – similar to the way *The Global Competitiveness Report* does it. This practice allows to evaluate the development of the territory and to compare its dynamic trends, observing the development of the territory from various points of view.



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## DATA MINING IMPLEMENTATION PRINCIPLES IN CUSTOMER RELATIONSHIP MANAGEMENT SYSTEMS

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**Keywords:** data mining, customer relationship management, CRM.

Customer relationship management (CRM) technology can be one of competitive advantages of enterprise. In literature there is lot of research what focus on managerial and organizational benefits of CRM technology use, but very rarely there is discussion about individual user needs of CRM technology. Taking into consideration that user adoption counts for 47% of CRM project failures and combining it with current research findings of user needs we argue that it is important to analyze individual needs of CRM system user. Individual user needs should be analyzed by enterprise function – sales, marketing, service and their role there. It is also important to analyze information needs of users taking into account user preferences for storing and using privately and publically available information.

During research about critical success factors of customer relationship management process adoption we discovered that there is disharmony among information that CRM systems supply and what sales agents really need. There must be perfect match between agent individual needs and information available in CRM otherwise CRM users won't see personal benefit from CRM and will characterize it as abuse and managerial incentive.

The aim of this paper is to identify data mining principles that could extract information from CRM data using individual agent context. Describe data model and collection of information that definitely must be public or private. Public information and data that agents benefits most and what are critical information that could be used by agents.

Research will be done using quantitative methods, experiment with real enterprise data.

This research will contribute to decision making process of organizations willing to implement CRM technology. Research results could be used for organizations operating in private and public sectors where regular interactions with customers or citizens are needed. Research is limited to sales and order processing processes, information and processes mainly used by sales agents and sales managers.



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## DETERMINANTS OF CREDIT AND DEPOSIT INTEREST RATES IN LATVIA: PERSPECTIVE OF FACTOR ANALYSIS

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**Keywords:** lending rates, deposit rates, money market rates, credit risk, market risk, factor analysis.

The purpose of this research is to explore the dynamics of commercial bank retail interest rates in Latvia from January 2004 to December 2010, drawing special attention to the pass-through from money market interest rates to retail interest rates. To reach the set objective, the work addresses several questions. First of all, it assesses what macroeconomic, financial or bank specific variables could be used as potential determinants of credit and deposit interest rates. Secondly, the work addresses the question whether the found determinants could be compressed into smaller number of factors that could be easily implemented in the further analysis of credit and deposit rates. Finally, the research has intention to find an answer to the question what results could be obtained with help of the defined factors and how they could be evaluated in comparison with those that are obtained by simpler methods. The analysis is conducted for banking products both in lats and euro. The time period considered lasts from January 2004 to December 2010.

The main factor determining the dynamics of retail interest rates in Latvia is the money market interest rate, which can be considered as a marginal cost of bank funding. However, it is not the only one determinant of credit and deposit interest rates. Economic literature points that the mark-up over money market rates that are incorporated in commercial bank interest rates could be explained by market and credit risk components [1, 2] as well as by, for instance, macroeconomic stance of the country or development level of its financial market [3, 4, 5].

There are a large number of macroeconomic and financial variables that could be used as determinants of credit and deposit interest rates in Latvia. However, time series of data is not of noticeable length. If market or credit risk is considered, several indicators might characterize it from differing aspects, but no one completely [6]. Moreover, strong correlation might persist between different determinants restricting possibilities of econometric analysis of credit and deposit interest rates. Implementation of factor analysis might prevent these difficulties. If it would be possible to form only some factors explaining dynamics of credit and deposit interest rates in Latvia, most probably, researchers could perform more complete analysis of interest rates leading to more accurate projections of future interest rates and better measurement of pass-through from money market interest rates to credit and deposit interest rates [7].

Results of the suggested analysis of credit and deposit interest rates are compared to those that are obtained by simpler methods. Generally, it could be concluded that factor analysis provides better results and wider understanding of determinants of credit and deposit interest rates in Latvia. Use of a manageable number of factors in the analysis makes the complex problem of interest rate determination more tractable.



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## **BUSINESS REORGANIZATION EFFICIENCY EVALUATION METHODS**

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**Keywords:** reorganization, method, analysis, financial statements.

The efficiency of the company may use financial statement data for the calculation of the various absolute and relative performance, comparing them combining and interpreting. One of the simplest financial analysis techniques to financial stability is a horizontal method of analysis – the company's financial statements (balance sheet, profit and loss statement, cash flow statement) the absolute indicator of changes in research. Main financial statements items index changes have a significant impact on the company's financial stability. Using the horizontal method of analysis can assess the company's financial stability of the positive or negative trends.



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## INDICATOR FOR ASSESSMENT OF PUBLIC OUTSOURCING: ISSUES AND PROSPECTS

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**Keywords:** effectiveness, efficiency, outsourcing, public administration, strategic decision.

Due to current economics situation, Latvian public administration is thinking about reorganization of the government administration in order to ensure effective government functioning. Public administration tries to simplify the institutional structures and procedures and finds ways to reduce budget, eliminates non-typical and overlapping functions and reduces government expenditure assessing impact on results. More and more public administration is questioning whether is necessary to provide all services by themselves or it is possible to guarantee high quality and cost-effective results with contracting out.

Outsourcing is not anymore a brand new concept, because private and public sector have always purchased some outside goods and services, but in nowadays outsourcing are classified as strategic management model that can be used not only in the public administration secondary/ support activities, but in core activities too. Outsourcing is a strategy used by public administration to provide high quality public services at low cost and can be viewed as tool/instrument to increase public sector efficiency and for fighting the global economic crisis and for economic recovery. Public administration searches new way to efficient functioning, but due to the absence of unified comparative indicators full potential of the outsourcing has not yet been delivered.

Pair of business terms *efficiency* and *effectiveness* in nowadays can be classified as business classic elements. Effectiveness is often described as “doing the right thing”, but efficiency – “doing things right”. Outsourcing has been widely discussed in the context of advantages and disadvantages, potential risks and problems, but very little discussed theme is about outcomes of outsourcing, performance indicators and assessment tools. Outsourcing now is widespread and covered many activities which are now outsourced, but main question still existed: do outsourcing public administration activities or services reduce costs while holding quality? How can we identified activities or services that must not be contracted out (for example, law-making, coercive powers and governance)?

This article summarises literature and other sources collected in connection with outsourcing in public administration and different aspects of outsourcing assessment, describes theoretical approaches of outsourcing - the resource-based view, transaction cost theory, agency theory, institutional theory and contingency theory. The article is based on public administration and IT industry employees' questionnaire data. The aim of this article is to find indicators that can be used for assessment of public outsourcing and for decision making about public administration strategy in field of information and communication technologies. Unified comparative indicators allow make decision, taking into account short term and long term goals, as well as identified services that are the best candidates for outsourcing.



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## FIRM VULNERABILITY DURING DIFFERENT LIFE CYCLE STAGES

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**Keywords:** life cycle approach; organizational development; organizational change; organizational disease; firm crisis; firm demographics.

According to life cycle theory firm development is explained as sequence of stages which follows (probabilistic) natural, logical or institutional rules [1]. This sequence is bounded by the firm's birth and death. Lifespan and growth of the firm are variable. As demographics show, the population comprises many small and few large as well as many young and few old firms [2]. Less than 1% of firms in EU and USA employ more than 250 people; the average life expectancy is about 12.5 years (40 years for international corporations).

Firms in general are vulnerable, any time and for various reasons. They die if they cannot prevent or cure their diseases (avoid crisis / recover from crisis). Although panaceas for firm diseases do not exist, knowing the vulnerable spots and possible infections could facilitate prevention and cure [3].

More than 100 life cycle models have been published during the last 50 years [4]. Some point to vulnerable spots typical for certain life cycle stages [5]; [6]. This paper aims to outline a map of these vulnerable spots. The map does consider the demographic variety of the firm population.

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## LOCAL ENVIRONMENTAL GOVERNANCE AND PUBLIC PARTICIPATION: ENVIRONMENTAL ANGLE OF THE LEADER PROGRAMME IN LATVIA

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**Keywords:** bottom-up initiatives, collaboration, environmental governance, local actors, public participation.

Participation in decision making processes and activities of community based organisations and non-governmental organisations (NGOs) at local level are to be seen as core elements in local environmental governance. Collaboration in problem solving and seeking for consensus among key target groups is seen here as one of modes of public participation. Leader programme is designed to support bottom-up initiatives in rural areas across the European Union. It has been chosen for the analysis as it comprises several key aspects – activities at local level and opportunities for environmental governance, NGO involvement in decision making and support for NGO projects, as well as it provides institutional framework for stakeholder involvement.

All in all the paper aims to assess whether Leader programme in Latvia supports incentives aimed at improvement of local environmental governance and helps facilitating stakeholder participation. Considering the fact that Leader programme utilises a pre-defined framework derived through European and national level programming processes and Cabinet regulations, one of the research questions is whether the top-down framing is not undermining the bottom-up approach in the context of environmental governance? Author also analyses how environmental governance aspects are integrated within Leader and whether vertical environmental integration trickles down to local level. The paper reflects the results of desk research and interviews done by the author with actors involved in implementation of local level activities supported through Leader.

With regard to public participation in environmental governance, author concludes that institutional structures have crucial role to sustain stakeholder participation. Whereas concerning integration of environmental aspects in implementation of Leader programme in Latvia, author makes conclusions that the Leader programme doesn't contribute to environmental governance in a systematic way. Contribution to local environmental governance can be increased through skill-share trainings, toolkits and creating national level partnerships between rural NGO unions and environmental NGOs.



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## POVERTY AND MATERIAL DEPRIVATION IN DIFFERENT TYPES OF HOUSEHOLDS BY REGIONS OF LATVIA

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

In the article author analyses poverty and ill-provided existence in the regions of Latvia, their various household aspects and demographical types during 2008 and 2009, thereby widening subjects of research in comparison the latest publication from 2010 “Different demographical types of household and their inability to buy nonexpendable goods in regions of Latvia”.

The goal of the research is to appraise available information of this subject. Object of research is different demographical types of household in regions of Latvia, but subject- poverty and financially non protected households.

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 are.

In the collection mentioned above has been incorporated Laeken monetary indicator of poverty. One of the indicators is the poverty risk index, which is inhabitant’s percentile proportion, whose equivalent useable income is under 60% from national equivalent useable income median. Equivalent useable income is household disposable income, divided with equivalent household size.

However, it’s needed to know that income at least a bit above poverty risk threshold not always provides preferable life quality for inhabitants. Statistically less researched fact is material insecurity, to understand the conditions resulting from the lack of economic resources and prevent access to material goods, and is also characterized by poor housing conditions and the forced abandonment (due to the lack of money) of long-term goods. Material deprivation is the main manifestations of the economic turmoil, forced the abandonment of durable goods in poor housing conditions, failure to provide health care and to purchase necessary medicine, failure to provide education for children according to their abilities, poor palliative care at the old age, and more.

Main conclusions of the research are as follows.

Household and living conditions have become worse in 2009 comparing to 2008 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.

Despite indicated bad household conditions many other different showings indicates the positive poverty tendency towards its reduction.

This contradiction in results shows the necessity to re-estimate current methodology of the statistical research in order to find and fix its shortages. For example, the poverty risk line is being calculated only from household incomes by ignoring its expenditures. The methodology of poverty risk line does not work in situations when purchasing capacity is falling due to the high inflation rate. Therefore an index of the poverty barrier will be in a contradiction with the real situation.



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## THE PERFORMANCE OF BALTIC EQUITY FUNDS

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**Keywords:** mutual funds, performance, CAPM, Sharpe ratio.

Nowadays mutual funds (investment funds) are popular collective investment vehicles around the world. The development of mutual fund industries led to high competition among fund managers and managers tend to create products that are different from each other. Investors benefit from high competition and have a wide range of funds to choose from the one that fully satisfies their investment purposes and needs. When the investors choose the fund they carefully analyze many characteristics of mutual funds. The past performance of funds is one of such characteristics that usually are very interesting to potential investors. Development of performance measures goes hand in hand with development of portfolio theories as well as with mathematical and statistical tools. Despite of variety of such measures the ones based on Modern Portfolio Theory and derived from Capital Asset Pricing Model are still widely used.

Baltic investment funds market is comparatively new, small and weakly developed. It experienced remarkable growth until 2007 but affected by current financial crisis the amount of assets under management decreased sharply in 2008-2009. Hence there is limited number of papers that study performance of Baltic investment funds. The paper examines a risk adjusted performance of 30 Baltic equity funds. The performance is evaluated using Sharpe ratios, M-square and CAPM methodology. Fund manager's superior security selection skills are analyzed using Jensen performance measure and market timing ability is estimated using Treynor-Mazui and Henriksson-Merton models. Afterwards funds were rated in accordance to obtained performance measures. For estimation are used daily returns of investment funds over the time period covering years 2009-2010. The risk adjusted performance measures indicate that majority of Baltic equity funds underperformed Baltic market but performed better than Eastern European emerging index. The analysis of Jensen alphas showed that there is positive but insignificant security selection skill. The results obtained from Treynor-Mazui and Henriksson-Merton models give no evidence that fund managers possess market timing ability. The rating of funds created in this paper was based on performance results. In overall ratings are consistent among various evaluation methods used. It can be stated that among Baltic countries Estonian equity funds performed better as the five of six funds at the top of the rating were managed by Estonian managers.



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## RISKS AND RISK-MANAGEMENT IN FINANCING RESIDENTIAL REAL ESTATES

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**Keywords:** subprime mortgage crisis, financing, risks, risk-management.

During the last and still ongoing financial crisis also known as Subprime Mortgage Crisis, triggered by a dramatic rise in mortgage delinquencies in the USA, more than 4 million US families lost their homes in cause of foreclosures. Another 4.5 million households are still (end of 2010) in a foreclosure process [1]. The USA had nearly 2.8 million foreclosures in 2009 and estimated more than 3 million in 2010 [2]. Millions of people lost a lot of money at funds mostly with high speculative products but even with their pension funds. Huge former triple-A rated banks as Lehmann Brothers had to declare their bankruptcy. Others got billions of Dollars to survive as Citigroup or the two biggest U.S. mortgage banks Fannie Mae and Freddie Mac or they were nationalized as the German Hypo Real Estate Bank. Island and Greece got massive financial problems, which are leading them nearly to a governmental bankruptcy. Spain, Portugal and even big G8 countries as USA and Germany got into big troubles with their financial systems. All these things happened because U.S. credit grantors and credit users did not realized their real risks in financing real estates with subprime loans. In addition the securitization of the credit risks and the worldwide allocation of the products made this crunch, which was created in the USA, to an international crisis. In general, financial systems are characterized by ups and downs. The financial market is a permanent cyclical process. It is very important to take an early perception of signs of an economic slump, to avoid such giant and worldwide impacts on the economy of so many countries.

The paper evidences, that a poor risk management in the policies of lending money and of securitization of mortgages led doubtless to this disastrous situation. 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 at 662 pages! The very bad riskmanagement is also named as the cause of the crisis by many other authors like Shiller (2008) in "*The Subprime Solution*" [3], Tett (2010) in "*Fools Gold*" [4] or Barth (2009) in "*The Rise and Fall of the US Mortgage and Credit Markets*" [5]. Inside the dissertation-thesis there is a fundamental explanation of kinds, effects and stakeholders of risks in financing. Furthermore there is written how risk-management should work and how it worked before, during and after this crisis, which general risks of financing real estates exist for lenders, borrowers and third parties and which activities are able to avoid or to minimize these risks. The main aspect for stakeholders is to have or to get the knowledge to identify and evaluate potential risks in order to avoid them. There were big financial crises even before this last one and there were investigations after each of the former crises too and it is sure, that experts explained the former failures. Inside this thesis it will be revealed: are new kinds or a new quality of failures or risks triggers of this crisis and if or if not, why it is so relevant to repeat these explanations again and again and why do all stakeholders have to practice a lot in the field of the financial risks.



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## THE CAPITAL ASSET PRICING MODEL (CAPM) VERSUS INTERNAL RATE OF RETURN (IRR): A TESTING CONCEPT FOR INFRASTRUCTURE ASSETS

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**Keywords:** Capital Asset Pricing Model (CAPM), Internal Rate of Return (IRR), Infrastructure, Renewable Energy, Czech Republic.

Notably quite a number of infrastructure funds have entered the markets since the early 2000's in Europe helping to establish infrastructure as an alternative asset class in the investment universe in Europe (also quite heavily fuelled by the forerunners of Private-Public-Partnership (PPP) projects in the UK). Since the early days of infrastructure investments by private (in the sense of non-state) parties the return expectations that were promised to investors have not shifted still today being in the range of 10-15% equity Internal Rate of Return (IRR). In other words since a decade investors are willing to get the risk of infrastructure assets rewarded in a constant range as per above. This seems especially remarkable since "non defaultable" rates as well as debt costs have shifted quite substantially during this time bearing the emergence of two crises both of different gravity to the overall economy.

Based on the observed constant return targets of infrastructure investors versus shifting debt markets/ debt cost the research focuses on the comparison between IRR and Capital Asset Pricing Model (CAPM) based equity valuation for this asset class since the latter is postulating a link between cost of (debt) capital, asset specific and market driven risk for the determination of cost of equity versus the earlier being observed to be constant.

Following the key postulate of the CAPM (both as a single and a multi-period model) the equity return should always be dividable into a risk free rate adding a risk premium determined by the underlying market (unlevered) beta re-applied to the asset's specific leverage driven risk. Bearing in mind the observed substantial decline in "non defaultable" returns both on the short and long end of the interest curve and the – at the same time constant – equity return expectations of investors, it appears unlikely that the postulate of the CAPM is applicable to this specific asset class and/or regarded as valid by the market/ investors. In other words the market (unlevered) beta and the respective re-levered beta would have to perfectly counterbalance the effect of the decline of the "non-defaultable" returns under the CAPM in order to produce a "flat line" equity return expectation for investors.

Summarizing the above the research focuses on the suitability of the CAPM as a decision tool for management when valuing investments in the space of infrastructure (or more precisely renewable energy assets in the Czech Republic).



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## **CARBON CREDIT TRADING'S IMPACT ON SUSTAINABLE DEVELOPMENT**

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**Keywords:** sustainable development, tradable permits' system, tradable permit, carbon credit.

During the last few decades more and more governments and international organisations with respect to carbon emissions are introducing a rather new policy instrument called tradable permits' systems, i.e. tradable carbon credits' systems. Within this paper tradable permits' systems are viewed from the perspective of sustainable development, exploring the mechanism of tradable permits' systems and evaluating its compliance to the concept of sustainable development, investigating possible contribution of tradable permits' systems towards sustainable development of companies as well as sustainable development of states and regions. Moreover – particular evidences of tradable carbon credits' systems' impact on the sustainable development are provided and discussed, int.al. implications of the world's largest tradable carbon credits' systems – the European Union Emission Trading Scheme and International Emission Trading. At the end of the paper it is concluded that the implementation of the tradable carbon credits' system may contribute towards the sustainable development however in order to ensure this positive effect tradable carbon credits' system must be properly implemented and designated participants must properly participate therein.



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## **RISK ASSESSMENT IN THE PROJECT INITIALIZATION PROCESS AS PART OF THE COST – BENEFIT ANALYSIS**

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**Keywords:** project risk analysis, project initiation, cost-benefit analysis.

Characterizing and communicating uncertainty – a critical part of any risk analysis – becomes a crucial task when there are many sources and types of uncertainty. Cost-benefit analysis (CBA) is a technique intended to improve the quality of public policy decisions, using as a metric a monetary measure of policy decision. Therefore, for risk assessments to provide information that can be used in CBA, it is important to enlarge the capacity to express how risks vary with changes in concentration or exposure.

The purpose of the paper is to analyze project risks and assess their impact in the frame of CBA based on public fund financed projects case study. For project risk evaluation the empirical data analysis and scientific literature analysis has been done.

According to the project management theory project controlling and risk assessment should be done. Internal controls should provide for an assessment of the risks a governmental entity faces from both external and internal sources. A precondition to such risk assessment is the establishment of clear, consistent goals and objectives at the entity-wide level, and also the activity or program level if applicable.

Implicit in management’s approach to risk assessment is an underlying cost/benefit analysis. In other words, the design of an internal control system to mitigate risks must reflect the fact that there will invariably be resource constraints and that the benefits of controls must be considered in relationship to their costs. In formulating such a cost/benefit analysis, management should further consider both the likelihood of risk occurrence and the associated risk impact, and then allocate resources to those areas of risk where the combination of risk likelihood and impact will sustain the greatest negative consequences for the entity.

At the end of the paper author provides proposals for project risk assessment model improvement in the project initiation phase as the part of CBA.



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## CORPORATE IDENTITY FRAMEWORK AND DIMENSIONS OF THE LATVIAN COMMERCIAL BANKS

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**Keywords:** services marketing, corporate identity, marketing management, brand management.

Latvian banking industry has also followed the path of rapid development like entire Latvian economy did in the last 20 years. Along with expansion abroad and provision of financial services by Latvian banks to non-resident customers from foreign countries, each individual commercial bank has established specific positioning and corporate image within the local and international markets. Also, some banks have gone through corporate strategy and visual identity changes in order to adjust to the volatile market conditions and implement up-to-date adjustments to their marketing communications with the target audience and markets in general.

Hypothesis: there exists gap between what commercial banks communicate to their customers and the actually perceived image by the customers in the local Latvian market.

Aim of the research: to explore corporate identity and brand building concept by marketing experts.

Tasks of the research:

1. To explore relationship between the corporate identity (i.e. what company is), the image being communicated to customers, and the actual perception of the commercial bank image by their customers from services marketing perspective.
2. Define reputation concept and its contribution to commercial bank brand building.
3. Accomplish in-depth interviews with commercial bank representatives and marketing experts in order to explore expert opinions on commercial bank corporate identity, their brand building efforts and gaps between intended and actual image created among their customers.



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## IMPROVEMENT POSSIBILITIES OF THE CREDIT GRANTING PRACTICES IN THE COMMERCIAL BANKS

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**Keywords:** lending, credit granting, process analysis, decision making.

Decline of the Latvian commercial bank loans portfolio, which started in the 2009, are still ongoing and has remained at the 7% level, compeering with the portfolio volume of the previous year. Despite of this decline, some commercial banks actively demonstrate their openness to grant mortgage loans to the households. Survey about household and commercial lending, done by Bank of Latvia in January of 2011, demonstrates that commercial banks expect growth of household lending demand in the first half of this year. Taking into account the potential increase of lending, commercial banks announced readiness to review their prudent credit granting standards and find the ways how to mitigate credit granting processes for households.

There is the common view of households and commercial banks that currently mortgage granting process, which is realized in certain stages, is inadequately long, dispiriting and excessively complicated.

**This paper analyze** the assessment of mortgage credit granting process to the households in commercial banks of Latvia, including the evaluation of the time factor and operational constraints

**The purposes of this study are:**

- to map the household mortgage credit granting process, using graphical methods – decision-making tree;
- identify problematic stages of the process in the aspect of time and operational constraints;
- develop recommendations to improve credit granting process from the time perspective, and in the same time reduce the complexity of granting activities.

As an outcome of potential improvement in household mortgage granting process, commercial banks will increase the satisfaction level of customers and in the same time banks will find the way how to achieve more resources-saving model of credit granting process.

To achieve purpose of the study, 4 different tasks were executed:

- Conducted interview with Loan officers from Latvian commercial banks;
- Results of interviews were transformed to the decision-making tree and fixed time and probability of each alternative action;
- Carried-out the verification of decision-making tree items to check it compliance with the usual household mortgage granting process – the order of the actions and reached approval rates;
- Identified constraints of household mortgage granting / rejection process.

To execute the tasks of the study authors used both qualitative methods – structured interviews, and graphical tools – a decision-making tree. The study led to the proposals; how to reduce execution time of credit granting, optimize households mortgage review process, increase it effectiveness and in the same time maintain the prudent lending standards.

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## NATIONAL STRATEGIC PLANNING IN EU COUNTRIES

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**Keywords:** strategic planning, public administration, European Union.

The paper will analyse shared aspects and differences in national strategic planning in European Union (EU) countries comparing the tools for national strategies' implementation and measurement and also trying to identify the historical roots that led to a particular approach and its relevance with older and newer theory. The goal of the article is to collect and compare different tools and approaches of how national strategies are being prepared, implemented and evaluated. The national strategies of EU countries will serve as empirical data for the research and the logical constructive and comparative analyses is the main research method.

Historically strategic planning was related to a planning of military actions (from old Greek: *stratos* – army, *agos* – management). Strategic planning as a term and a tool for the development of an organization as we know it nowadays formed in late 1950's, however only during the last couple of decades it has come closer to public administration, especially in eastern Europe. After the World War II when United States of America (USA) and Union of Soviet Socialist Republics (USSR) formed as two superpowers in global political and economic environment, we see the usage of common and different principles of strategic planning as a tool for the development of an organization and a state or union. The common aspect would be the welfare of people and prosperity of nation, but the tactics were so different – the western ideology of free trade, capitalistic approach described by Adam Smith (private business drives the economy) and the socialist and communist ideology of proletariat ruling, centralized planning and tightly regulated economy initially described by Karl Heinrich Marx. The Marxism did not work out for all Europe and eastern countries as a result many strategic planning ideas based on democracy and liberal economy coming from all over the world is now taking more or less similar development path for both, an organization and a state in all Europe.

The strategic planning as we know it nowadays contains the mission and the vision statements, the goals, the principles and the values that are respected while implementing the strategy, the action plans with detailed tasks and key performance indicators for measurement of strategy implementation. Although on the whole picture national strategic planning might seem quite similar in EU countries, there are lots of specific different factors that are taken into account in every country that lead to wide range of different praxis and innovations. In reality public administrations in Europe are facing many different challenges to implement their strategies, to address the right message to society, to take into account needs and expectations of their clients, to be flexible enough to react on influence from both internal and external environment. The collection and comparative analyses of how countries overcome these challenges provided in this paper might help to identify the possible innovations, the best practice to use and some to avoid.



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## MANAGEMENT OF REGIONAL GOVERNANCE

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**Keywords:** regional governance, regional management, cooperation.

The search for high qualified workforce and the need to integrate suppliers, customers and R&D institutions in the know-how intensive production process have led to a new appreciation of physical proximity, formal and informal networking and social capital. The specific needs of knowledge-driven firms regarding their location have intensified competition among regions. No matter if the target group is tourists, high qualified workforce, investors or new business founders, the competitiveness of regions rely more and more on its organizing capacity and an interplay of the private and public sector. Thereby neither formal hierarchy nor pure market forces are suitable forms of problem solving. In such complex settings regional governance understood as territorial self-organization by the means of negotiation and cooperation of private and public actors has gained practical relevance and scientific interest [1]. However, regional governance does not emerge automatically. Bringing people from different sectors together, coordinate their activities and stimulate cooperation and coordinated problem solving in a functional and territorial context is a complex management task. Most research contributions on regional governance are rooted in sociology, political sciences or economics. This paper aims to tackle the concept from a management perspective. Regional governance first became an issue in England where institutions at regional level have traditionally been rather weak. In the 90ies the concept gained more and more importance also in continental Europe. The European structural funds and their development programmes aim at empowering the regional level. In this institutional context regional governance should stimulate the strategic competence and innovative capacity of regions. Apart from daily routines strengths, weaknesses, opportunities and threats as well as of development priorities have to be identified. Thereby regional management as an intermediate actor has the task to guide the strategy process, initiate networks and develop implementation projects. So, it is essential for regional managers to better understand the governance modes in place and to know which factors stimulate governance beyond a pure project-based cooperation. In order to gain deeper insights in the governance concept structured interviews with regional managers in Austria are conducted. Thereby the analytical framework is derived from the concept of actor-centred institutionalism [2, 3, 4]. Since governance is a latent variable which cannot be observed directly several indicators are identified. By the means of a factor analysis the most important variables are derived and discussed in the light of prescriptive models laid down in development programmes and research literature.

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## THE INFLUENCE OF INTERNATIONAL ACCOUNTING STANDARDS ON SMALL AND MEDIUM SIZED ENTERPRISES

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**Keywords:** Small and Medium size Enterprises, entrepreneurs, innovation, International Accounting Standards, capital, cost efficiency.

SME's are vital for the growth of any economy in the world. They occupy a large proportion among the total amount of enterprises taken together. They also provide for employment to a vast majority of people and thereby impart entrepreneurial and innovative skills.

SME's are defined in different countries and regions various ways. Some term them in different terms such as Small and Medium sized businesses. Others define them in relation to the number of employees employed by them. But the basic definition of a SME remains quite the same all over the world and it is defined by its number of employees, turnover and the size of its Balance sheet.

SME's are put into classifications according to the category they belong to and size. The classifications are as follows: 1) Partner enterprises; 2) Autonomous Enterprises; 3) Linked enterprises.

Of course the categories are revised and updated at intervals so that they are relevant to the times.

The EU has given the EU a new definition to promote new enterprises and innovation, improve access to capital and prevent misuse of the SME status.

The development of the SME's have been rapid in most countries of the world and accordingly have been defined in those countries according to their size and importance.

In the UK SME's have been defined for statistical purposes. In the US the definition of small business is set by a government department called the small business administration size standards office. In Asia it is based on the size of the capital and labour employed.

Generally all SME's face common problems. These problems generally relate to accounting and reporting. These are the major problems faced by the SME's, especially because the accounting and reporting requirements of most countries are usually set and prepared to meet the requirements of large and medium sized industries. Even some of the international requirements are generally for bid organisations. Also qualified accounting firms are more inclined to cater to the needs of the large and medium sized organisations.

Besides, entrepreneurs who venture in to SME type of organisations are usually not very educated and lack the quality management skills to handle these problems of accounting and reporting.

Of course, there have been certain changes to the legislations of various countries to allow the SME's to receive more advise and education on these matters and other allied problems.

SME's have a very bright future due to their flexibility and their cost efficiency. They certainly have proved to be of immense importance and use in society and vital for any economy.

Environmentally too they have proved to be of significance though not in a very big way. Most economies have realised their worth and are in favour of them in a big way.

International Accounting Standards, (IAS), have a notable influence on the functioning of SME's. IAS's enable the SME'S to function economically and ensure that their cash flows do not allow them go beyond their budgeted figures. They also ensure that organisations make use of their working capital judiciously. They allow the SME'S to make use of the standards to their benefit and protection.



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## CONTEMPORARY ERGONOMICS AND BUSINESS

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**Keywords:** ergonomics, workplace, productivity, success, relationship.

**Introduction.** The purpose of this research is to examine changing conception and use of ergonomics as it interacts with the relationship between the employee and the organization, as presented within scholarly and industry literature dating 1990 – present.

The Research Questions driving this inquiry are as follows:

1. What is the relationship between ergonomics and business productivity success, as reflected in scholarly and industry literature dated 1990 – present?
2. How has the conception of ergonomics and the theoretical framework surrounding it changed in the period 1990 – present, as reflected in scholarly and industry literature?
3. Finally, how do the changes identified in response to research question #2 relate to more generalized changes in the conception of the workplace and employee/employer relationships?

**Methods.** The methodology followed is an original thematic and textual analysis on existing literature dealing with the value of ergonomics in the workplace, particularly as it relates to morale and productivity and/or success of the business venture. The focus is not only the results of the existing studies, but also an analysis of their thematic framework and the ways in which ergonomics are viewed. Scholarly articles dating 1990 – present are selected and analyzed.

**Results.** Ergonomic measures do lead to improved business outcomes, and success is manifested in various degrees and types. The conception of the role of ergonomics does appear to have changed in the period 1990 – present, based on the articles surveyed. At the beginning of this period, ergonomics was viewed principally within the framework of risk prevention. Some authors expressed dissatisfaction with this framework. Subsequently, a new understanding of ergonomics as an integral component of a participatory workplace systems has emerged. It is hoped that the benefits of newer theoretical frameworks regarding ergonomics can subsequently be implemented and expanded upon for an ongoing improvement in results.



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## DOES CHINA HAVE AN INTEREST-RATE STRATEGY?

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**Keywords:** China, interest rate, inflation.

China's emergence as a consumption market occurred some thirty years after its establishment as a producer market. As it now consolidates, many ask if it will develop towards a financial market. This essay analyses two pre-conditions for this last step to occur. First it deals with Chinese (financial) crisis-prevention mechanisms as the country tries to control its growth and to prevent its real estate market from bursting. The country is employing banking and interest-rate related mechanisms as part of its operative response program and this essay claims that China rightly does so.

Second, this paper focuses on the interest rate as such and as an indicator of the cumulated risks an economy encounters itself with. Following Austrian economics, interest-rates are information bearers and mirror the actual risks an economy faces. Since interest rates in China are planned – and well planned, as the first section argues – they are not able to reflect true risks of the economy. Interest rates fail to reflect real risks because those are not visible in the Chinese markets, since the market's notion of capital and therefore of capital pricing is obscure and balance-sheet risks as well as policy risks are treated as secrets of state.

To sum up, whereas China is operatively successful in dealing with crisis, it lacks a comprehensive economic strategy towards interest rates.



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## THE INFLUENCE OF ORGANIZATIONAL CULTURE ON THE RISK MANAGEMENT IMPLEMENTATION PROCESS

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**Keywords:** risk Management, Non Profit Organisation, implementation process.

As an essential part of management, implementation of Risk Management (RM) increases the level of security in uncertain and complex business environment. For profit-oriented Management the Risk Management efforts are common sense but Non-Profit Management are relatively inexperienced in RM. The underlying research contributes to the role of organizational culture in the implementation of RM across Non Profit Organizations (NPO). Risk management is a systematic approach to managing all forms of risk faced by an organization. The management literature discusses organizational culture's importance in RM implementation, but there is scant regarding this connection especially in the Non Profit sector. Due to this, culture dimensions that effect NPO's Risk Management implementation process, should be identified. This should be base to further research to identify potential cultural strengths and barriers prior to implementing RM in NPO.



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## CREATIVITY AND INNOVATION – A CATALYST FOR CHANGE IN PUBLIC GOVERNANCE

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**Keywords:** higher education, innovation, creativity.

We live in richly diverse European Union where creative and innovative ideas are supported in different ways. Against the background of economic downturn and challenges the creative solutions can be a launching pad to the growth combining skills, ideas and processes.

European innovation policy has evolved over the time; in 1970s it focused on R&D, in 80s it was focused on knowledge transfer. In the last decades it was recognised that innovation is not a linear process (research – development – exploitation), but is a product of a more complex, multifaceted system involving a network and cooperation of players, among others, universities, researchers, public authorities and businesses.

The regional level is highly relevant for actions when it comes to putting innovation and creativity in place for economic development – the regions and cities are the main regional development drivers. The EU Cohesion Policy supports innovation through the co – financing provided by Structural Funds and innovation is understood to be the overarching means to attaining sustainable growth and encouraging clusters of different activities.

Generally it is acknowledged that government and public authorities should not react to economic crisis by cutting back on investments in skills and innovation; however in practice the confidence regarding investments in innovative practices is not high. The debate raises questions – what creativity and innovation mean in public governance and how they contribute to the personal, social and economic development. How can we help people to attain their potential and what is a role of higher education in making population and systems more dynamic?

The author examines some central issues and looks at several groups of projects in higher education that best represent how creativity and innovation can inspire change and develop innovative capacity in public governance and private organizations.



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## FACTORS DETERMINING THE LEVEL OF MOTIVATION AMONG CIVIL SERVANTS TO DEVELOP THEIR HUMAN CAPITAL

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**Keywords:** human capital, human capital developments, motivation.

The concept of human capital is used in the state administration in line with the understanding that the accessibility (quantity) of services provided by the state is considerably influenced by the financial capital, which constitutes short-term resources, while the quality of services is largely influenced by the personnel, which is a constant value and is therefore called the human capital [1].

Key tasks of the research – to ascertain the factors motivating employees to work for state administration, reduce employee turnover, form and support between a manager and a subordinate a relationship culture that would promote a feeling of appreciation and recognition in employees, to encourage informal events, support the employee's ambitions to obtain higher level of education in the speciality relevant to his/her activities, covering a part of the tuition fees.

The purpose of the author's research is to assess the efficiency of human capital development promotion, and on that basis develop suggestions to raise the motivation level of employees to develop their capital in the state administration. According to Korchagin's theory, maximum efficiency of development of positive human capital (with further return for the organization) in the public administration and investment in its development require boost in the people's motivation level to develop their capital. Respectively, it is necessary to determine what factors have influence on people's motivation to learn at their work place.

The methodological basis for the article is made up of the regulations, guidelines of the EU and the Republic of the Latvia as well as works of foreign authors.

Based on a theory analysis, we will attempt to establish what factors have a greater effect on people's motivation to grow their capital at their workplace – internal (motivating factors) or external factors (hygienic factors), as defined by Herzberg's theory[2].

The research will produce 3 models.

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## DECISION MAKING IN BUSINESS BETWEEN THE POLES OF MORALITY AND ECONOMIC CONSTRAINT

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**Keywords:** decision making, moral judgment, moral as restriction, moral as resource.

“The business of business is business” (Milton Friedmann).

Does Friedmann’s notion still fit in today’s business world or does moral (judgement) matters in a highly complex and rapidly changing business world? For economics the relationship to morality seems to be clarified:

1. Economic actors rationally decide, due to their preferences and constraints
2. Morality is a restriction.

Furthermore, a simple preference/restriction-scheme would define moral as external influence to “rational actors” [1, p. 163]. Basically, the intention of rational decision making is to identify and / or choose the best result. Restrictions lead to conditionally optimal / suboptimal results.

Therefore, why should be dealt moral in business? Why should morality matter in business?

This paper aims to discuss some ideas with regard to decision making in business between the poles of morality and economic constraints. By doing so on the one hand the idea of moral in business seen as restriction should be discussed (taking e.g. G. S. Beckers “economic approach” in consideration). On the other hand the notion that moral is seen as resource resp. advantage in business should be pointed out as well. In this case the “moral option” can be seen as an investment and as (certainly) every investment it is done because a “better result” in the future is expected.

However, dealing with the topic “morality in business” almost always means dealing with dilemma situations. Therefore it would be far beyond this paper to give “ultimate” answers but it aims to deliver a contribution to the complex research area of decision making and moral judgement in business.

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## THE CONCEPT OF THE SOCIAL DIALOGUE AND SOCIAL PARTNERSHIP: FOCUS ON THE EU

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**Keywords:** social dialogue trade union, legislation, social partnership.

This paper outlines the Social dialogue concept and its implementation in the world regions.

Social Dialogue is a relatively new and not sufficiently developed world-wide concept. It has gained significant importance in public debates internationally in the last decades. An important role in promoting Social Dialogue has been taken by international institutions mainly International Labour Organisation (ILO). Social dialogue is grounded in the constitution of ILO and is an integral part of its 'Decent Work Agenda' covering rights at work, employment and social protection [1]. Through its tripartite structure, the ILO has unique access to the world of social dialogue. It provides a forum for a global social dialogue for representatives of workers' and employers' organizations and governments from more than 170 countries. The ILO has also contributed to the implementation of the concept of Social Dialogue by declaring in its programme of activities for 2000 -2014, the strengthening of Social Dialogue among ILO member States as one of its strategic objectives to be achieved [2]. Social dialogue is defined by ILO as all types of negotiation, consultation or simply exchange of information between, or among, representatives of governments, employers and workers, on issues of common interest relating to economic and social policy [3]. However, a definition of Social Dialogue is not yet a concept that has been accepted unanimously. As experts commonly agree- autonomous, independent and strong workers' and employers' organizations are critical for effective social dialogue. The quality of that dialogue is determined by the extent to which social partners are able to negotiate collective agreements that govern terms and conditions of employment and regulate labour relations. The emphasis of this particular inquiry is therefore on primary industrial relations indicators, that is, membership of organizations and the coverage of collective bargaining agreements [4].

Social dialogue institutions can be bipartite, tripartite or "tripartite plus". Tripartism, an important mean of establishing social dialogue, refers to labour relations in which the State, employers and workers are autonomous yet interdependent partners with common interests. Bipartism is a process of determination of a network of rules and regulations concerning terms and conditions of employment, etc., through consultation, negotiation, bargaining or other consensual processes. When bipartite dialogue does not lead to dispute avoidance or settlement, tripartite interventions like conciliation/ mediation and arbitration/adjudication become necessary [5].

However, the major focus of the Social dialog and Social partnership is given to the European Union. The paper tries to determine the role of Social Dialogue in the trade unions movements mainly in Europe. Trade unions are discussed. The paper highlights the role of trade unions as a social partner in decision-making process. Trade unions function in the EU New Member States with reference to Latvia is analysed. Finally the prospective role of trade unions in the EU in the implementation of the European Citizen's Initiative potential to improve workers' "conditions" are discussed.

On the basis of the main findings, the paper provides conclusions and suggestions for trade union action.



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## EVALUATION OF DESTINATION MARKETING EFFECTIVENESS IN MAIN INBOUND TOURISM MARKETS OF LATVIA

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**Keywords:** destination marketing, marketing effectiveness, target markets, portfolio matrix.

Evaluation of marketing productivity (effectiveness and efficiency) is one of the topical issues in destination marketing management worldwide. Up until now issues concerning productivity of tourism marketing were mostly resolved conceptually or theoretically but the indicators and methods applied are still being discussed. Destination Market Organisations (DMO) are in the search for methods that are practically applicable for the evaluation of marketing performance and further marketing decision making.

The author evaluated the relative effectiveness of Latvian tourism marketing in key target markets using Smeral's and Witt's (2002) destination country portfolio [1], which is based on Faulkner's (1997) shift-share analysis approach [2] and involves the analysis of market share and change in market share. The method does not reflect the direct impact of marketing on target markets but allow to elaborate the relative effectiveness as well as to evaluate the development of target markets in the world tourism development perspective and therefore determine attractive target markets for destinations for strategic planning purposes.

Main emphasis in the research is based on Latvian high priority and priority tourist target markets evaluating the market position of Latvia as destination and its changes in the target markets and attractiveness of target markets. Secondary data was used for research purposes: World Tourism Organisation's (UNWTO) international tourism statistics and Latvian inbound tourism statistics. The situation during the rapid economic growth period (2002-2007) and during the world economic crisis (2007-2010) is compared in the research.

The author draws conclusions on the use of portfolio matrix and market share calculations for evaluating the results of promotion and the position of destinations (local, regional, state level) in key target markets.

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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**

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**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 and distributions.



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## EXCISE TAX POLICY FOR ALCOHOL AND CIGARETTES IN LATVIA, ITS IMPACT ON STATE REVENUES AND THE LAFFER CURVE

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**Keywords:** Laffer curve, excise tax, state revenues, alcoholic drinks, cigarettes.

According to the economic relationship, called the Laffer curve, beyond a certain rate of taxation, the increase in tax rate leads to decrease in the State revenues. Latvian alcohol and tobacco markets are the brightest examples of inefficient tax policy, completely reflecting the concept of the Laffer curve.

With aim to boost State revenues, the excise taxes for alcoholic drinks (especially strong alcohol) and cigarettes were raised considerably. However, the increase in excise tax in combination with the economic recession and the following decrease in purchasing power led to increase in illegal sales and growth in contraband from the CIS countries (mostly Russia and Belarus). Sales volumes of legal alcohol market decreased by 36% in terms of DAL (from 7.4 m DAL in 2007 to 4.7 m DAL in 2010) and by 64% in terms of absolute alcohol (from 1.58 m DAL a/a in 2007 to 1.01 m DAL a/a in 2010). As a result, State revenues from alcoholic drinks (excluding beer) dropped from its maximum of 91 million LVL in 2008 to 77 million LVL in 2010.

In terms of cigarettes, the increase in excise tax was even more significant. By joining the European Union (EU) in 2004, Latvia agreed to undertake the harmonization process of excise and increase the national excise tax rates to the minimal required level of the EU. Even though the harmonization process has to be finalized only by 2018, cigarette market faced several noticeable tax increases already during 2007-2009. Since 2004 the average price of cigarette pack has increased by more than 4 times, thus creating a very advantageous environment for cigarette smugglers. Share of illegal cigarette market has grown from 5% in 2005 to more than 50% in 2010, therefore causing State revenue from cigarettes to drop dramatically as well.

The paper aims to analyze the impact of the increase in excise tax rates on the State revenues by using the Laffer curve concept.

The analysis reveals a strong relationship between excise tax rates and illegal market. Considerable and frequent tax increases led to significant drop in legal sales and decrease in State revenues from the excise tax.

The results can be used to improve excise tax system and effectiveness in Latvia, as well as to increase the competitiveness of legal manufacturers.



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## M&A PERFORMANCE ASSESSMENT AND EFFECTS OF CORPORATE CULTURE – IMPLICATIONS FOR A CULTURAL DUE DILIGENCE

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**Keywords:** Mergers & Acquisitions, performance, due diligence, corporate culture, cross-border.

**Mergers & Acquisitions (M&A)** transactions are an important initiative for large and mid-sized corporations to drive business development. The up-ward trend for M&A transactions and their relevance in International Management has increased to a large extent. However despite the ongoing relevance of M&A transactions there is regular dispute among researchers, practitioners (managers and employees), other stakeholders and even the society as a whole, how M&A initiatives **perform**. At the very centre of the critique is the observation that more than 50% of big takeovers fail to generate shareholder value.<sup>[1]</sup> Most importantly, a differentiating look at scalable drivers like long-term and short term drivers of company success in M&A is necessary to assess outcomes from such endeavours. However the underlying drivers, which are qualitative and non-financial, can be difficult to track. Assessment is needed for such categories. Corporate Culture is such a qualitative category, which should be analysed for its impact on M&A performance.

Ahammad (2010) supports the view, that corporate culture can have an impact on M&A performance. As he tests pre-acquisitions evaluation, including cultural due diligence and relates it to acquisitions' performance in cross-border deals, he finds that cultural fit positively influences acquisition performance.<sup>[2]</sup> However, the intensity of control systems (which might be applied after the acquisition takes place) should be carefully weighed in regards to cultural implications and in relation to capabilities of the two entities.<sup>[3]</sup> Hoerber/ Bourgeois (2009) found a way to develop a Due Diligence approach, which integrates corporate culture as a field of concern and investigation prior to the purchase of a target company.<sup>[4]</sup> This provides an important distinction: while most researchers focus on the implementation or post-acquisition phase, Hoerber/ Bourgeois argue for an early analysis in the target assessment phase. This suggests that potential buyers should assemble experienced integration teams and let those play their part in the due diligence team, besides strategy, valuation and other experts. Their model should help managers increase the probability of positive M&A performance. Cultural impacts play an important role in the M&A arena, both, on a national and corporate level. The difficulty to measure cultural indicators and relate them to sound categories may make it difficult for top managers to demand such an analysis from their consultants and transaction staff. However, as Ahammad (2010) pointed out, there should be a balanced approach, which also includes cultural measurements in a pre-deal *and* post-deal M&A environment. The paper should finally allow to develop an approach to assess and manage M&A performance from a cultural perspective.

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<sup>1</sup> Bloomberg (2010): "M&A Losers in \$10 Trillion Deal Binge Led by McClathy, Spring": the article states that more than 50% of the 100 biggest takeovers made during the last merger-and-acquisition boom failed to deliver value. Share price performance of the buyers lagged behind industry peers two years later.

<sup>2</sup> Ahammad (2010), p. 19.

<sup>3</sup> Porporato (2006), p. 24.

<sup>4</sup> Hoerber/ Bourgeois (2009), p. 2c.



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## **FUTURE OF ELECTRICAL ENERGY WHAT IS GENERATED BY USING THE RENEWABLE ENERGY SOURCES IN LATVIA**

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**Keywords:** Energy independence, renewable energy, feed-in tariff.

Focus of research is to analyze political decisions consequences for renewable energy projects in Latvia. Many companies and corporations from different sectors are involved in renewable energy developments, but there will not be feed- in tariff for regenerative energetic in Latvia for new projects until year 2013, the 1<sup>st</sup> of January. (Source: Press releases published by Ministry of Economics of the Republic of Latvia on 17<sup>th</sup> of May 2011). A Ministry of Economics just stop to assign the new renewable energy quotas for new projects, but feed- in tariff for existing plants is still available. This political decision is made just to stop electricity price growing tendency and to motivate persons who have received quotas to realize existing projects, because the largest parts of the projects are frozen or not planned to realize. Some project developers received electricity selling quotas just to resell those projects in future.

The renewable energy is one of the most perspective ways, how Latvia can increase the own energy independence. This decision will affect on the entire renewable energy sector in Latvia.

Main aim of research is to predict the renewable energy sectors development prospects and future of renewable energy in Latvia.

One of the author purposes is to analyze electricity price growing tendency for end users in Latvia – large electricity consumers, who are classified as electricity market participants and pay for renewable energy. Payment schedule is very simple – all produced renewable electrical energy costs are divided between all large electricity consumers with proportion of their electricity consumption.

Current problem is that the electrical market participants in Latvia (large electricity consumers) pay for renewable energy 1.63 euro cents for each consumed kW, it is around 13-19% from their end electricity tariff.



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## THE EVOLUTION OF MILITARY KEYNESIANISM AND ITS USE IN THE DEFENSE POLICY OF A STATE

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**Keywords:** military Keynesianism, defense economics, contracting, budget, policy.

In this paper author analyzes such aspect of modern defense policy as Military Keynesianism, which is based on the theory of John Maynard Keynes, who has emphasized the role of a state in the regulation of economic processes.

The aim of the paper is by analyzing the evolution of military Keynesianism, to define the potential trends of its use in the modern defense policy of a small state, which is mainly dependent on imported military goods. To achieve the aim, author has analyzed the evolution of military Keynesianism from the Second World War till the War on Terror, as well as defined the military and socioeconomic objectives of the small state defense policy in the framework of military Keynesianism. Also author has examined the possibility of implementation of this concept without the direct involvement of state budgetary funds.



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## ORIGINATION OF DUE DILIGENCE AND SCOPE OF ITS APPLICATION

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**Keywords:** due diligence, financial analysts, auditors, lawyers.

At the moment, companies that develop in international public space, with traditional financial analysis, where various financial coefficients from the balance sheet, profit and loss account and cash flow statement are analyzed, remain less and less. In order to assess the financial condition and results of economic activities and its development trends, it is necessary to use different methods of analysis. By using the methods of analysis of due diligence, wide range of sources of information are used and in the result of analysis one can obtain both qualitative and quantitative indicators what is the basis for creditors and potential investors in decision-making.

Aim of the article is to explore the theoretical aspects of due diligence and develop proposals for its use in business environment. Article explores the essence of due diligence and origination of its history, forms of due diligence and major components that are significant for each group of users of analysis. The author examines in detail the procedures of due diligence and reveal the differences from audit procedures. The article is prepared on the basis of foreign scientific and economic literature, publications of scientists and materials of international conferences. The methods of teleological and conventional economic analysis were used in the study.



## THE INFLUENCE OF MEDIA CHANNEL AND FREQUENCY ON THE BOOKING BEHAVIOR OF HOTEL GUESTS

– *Implications for a direct marketing optimization* –

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**Keywords:** marketing communication, media involvement, CRM, hotel.

Especially in the service industry such as the hotel industry managers should recognize that well-structured and valuable communication has a strong effect on consumer perception. A qualitative valuable communication leads to trust, satisfaction and loyalty. [1] Communication is finally altering consumer's beliefs and attitudes and is essential in fostering satisfaction as a basis for future behavior. [2]

Within customer relationship management respectively customer relationship marketing (CRM) companies use nowadays different media channels such as email, mail, text messages or the social web with Twitter or Facebook to stay in touch with its customers. The goal of the different communication actions is to embed the brand of the communicator in the head of the receiver and keep the product experience alive. The communication should stimulate the behavioral and attitudinal loyalty of the consumer in a positive way. The consumer should be influenced by the communication and act later on accordingly. Which means the communicator should become the first choice in upcoming buying decisions in order to increase revenue and profitability of the organization.

For many years marketing efficiency is a buzzword in several articles and discussions. But although marketing efficiency is all around many practitioners are not able to calculate the ROI (Return of Investment) of their marketing investments and even experts argue that for instance investments in social media are not measurable at all. [3] Over the last years due to a pressure of cost-reduction a growing number of marketing managers have replaced classic paper mails through online channels like email or Facebook. But different media channels are characterized by different awareness and perception levels on the side on the receiver which also influence learning curves and remembering effects. The generated value of a marketing campaign is obviously connected with the value of the used channel. The question is how valuable are the different channels and what is the behavioral effect on the side of the recipients? How do different channels stimulate the buying frequency of the consumer especially for emotional products like a hotel or a vacation?

This paper shows the effect of communication channel and communication frequency on the booking behavior of hotel guests. The paper is of interest for both academic research and practitioners not only in the hospitality industry. It shows how different media channels have stimulated hotel bookings over a period of three years. The paper evaluates the reviewed channels and suggests a direct marketing optimization model.

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## DEVELOPING AN EMPLOYEE SATISFACTION SURVEY FOR THE HUNGARIAN SME SECTOR: CRITICAL ANALYSIS OF THE EXISTING INSTRUMENTS

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**Keywords:** Employee Satisfaction, Measuring Employee Satisfaction, Hungarian SME.

The assessment of employee satisfaction is a part of many studies and achieved especially in the 70-s a great importance. At this time were about 30% of the currently used questionnaires developed and published [1].

The solid interest in this 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 [2].

To identify the actual state of employee satisfaction in a company and to achieve the target state of employee satisfaction, the aim of the research in this field must be the operationalization of employee satisfaction [3].

While extending the research to this topic following question arises: whether it is possible to determine employee satisfaction at all, reliable and clearly with the existing measuring instruments. The following paper presents the most important instruments to operationalize employee satisfaction and gives a recommendation how an employee satisfaction survey for SME's should be developed. As a sample for empirical testing a Hungarian SME sector will be presented and analysed.

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## SUPPLY CHAIN MANAGEMENT MATURITY AND THE IMPACT ON PERFORMANCE OF FIRMS

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**Keywords:** Supply Chain Management (SCM), Maturity, SCM-Performance.

Purpose – The purpose of the paper is to investigate the relationship between supply chain maturity and performance [1], with specific references both to the supply chain maturity model and to the supply chain operation reference model. Design/methodology/approach – Quantitative and qualitative, survey based research was carried out with 12 Austrian companies. Statistical analysis combined the use of descriptive statistics and structural equation modelling [2]. Findings – Empirical results indicate a strong and positive statistical relationship between supply chain maturity and supply chain performance. The results also suggest that the deliver process maturity has a higher impact on overall performance than the other supply chain processes [3]. Best performers schedule a higher percentage of orders to customer request date and are more likely to deliver the goods on the committed date. Research limitations/implications – Quantifying supply chain maturity and performance is an opportunity for a company to align its performance measurements and process improvement actions with its broader policies and strategies. The use of this approach has been validated in several previous research studies in organizational self-assessment and business management. Practical implications – Maturity models are valuable frameworks for corporate leadership. This study provides solid statistical evidence that a company that has achieved a higher maturity level and implemented the maturity factors also has achieved better performance. It also validates the application of these specific maturity factors in 12 Austrian companies. Originality/value – This paper confirms and expands upon earlier research suggesting higher levels of process maturity were related to superior performance. This paper also examines the evolution of performance measurement systems, moving from a traditional approach to a more process oriented perspective by reporting on the origins of maturity models and presenting the main empirical contributions through the use of the supply chain maturity model and supply chain operation reference model.

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## TAX PLANNING IN STRATEGIC PLANNING SYSTEM

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**Keywords:** tax planning, strategic planning, tax burden, taxes.

Every organization and even individuals need to set a plan for their daily work. Strategic planning is one of the management functions that are expressed as the process of the choice of organisation's goals and ways for their achievement. Strategic planning provides the basis for all management decisions. It helps shareholders and management of the company to determine directions and tempos of development, to clarify market tendencies, to realize what organizing and structural changes are necessary in the company to become competitive, what advantages the company has, what instruments are necessary for successful development. Strategic management unites financial and corporate planning, as well as strategic planning.

Respectively, strategic planning is at the basis of the purposeful activity of the organization. During strategic planning both organizational problems and problems of strategic forecasting are solved, redistribution of the resources, adaptation to the external environment, internal activity coordination, etc. Strategic planning is a continuing process and one by which small business managers develop the firm's business strategies and maintain the firm's competitiveness in the market. Results of researches shows, that the organizations using principles of strategic management, get bigger profit and are more successful than what don't use them.

Considering that taxes are one of the largest posts of costs who limits own means of the enterprise, grows of tax planning importance not only in management of tax payments, and also rationally using financial results. Tax planning influences formation process of enterprise incomes and expenses.

Tax planning is a part of strategic planning on the enterprise. Tax planning is a systematic use of optimal legitimate tax devices and methods to achieve the desirable financial position of the enterprise. Tax planning, primarily, is necessary for the enterprise; it is entailed with the necessity to clarify and sometimes to adjust financial commercial activity of the certain enterprise. The significance of tax planning exposes as the elaboration and implementation of various legitimate schemes to reduce tax expenditures.

Tax planning is constant active actions of the tax payer to reduce a tax loading of the enterprise on a purpose.

Thereof, the aim of the given article is to study theoretical bases of strategic planning and tax planning, and to develop offers for tax planning organization and introduction at the enterprise.

The tasks are to study of the scientific literature to find out what is strategic planning, tax planning, which position the tax planning occupies in the strategic planning system, to find out essence of tax planning, its place in planning at the enterprise, to develop recommendations for tax planning organization and introduction at the enterprise.



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## QUALITY COSTS AND THEIR REDUCTION POSSIBILITIES FOR COMPANY

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**Key words:** quality costs, marketing tool, standard requirements.

Quality costs are one of the factors that determine of any the organization quality management system efficiency and, consequently, affect the performance of the enterprise. In today's wide-ranging business needs, especially those relating to the quality of increasingly stringent conditions. Respond to those needs and improve the economic situation is likely to continuously improving the quality. Quality management system that meets the international ISO 9001 standard requirements, provides a stable position in the market, continuous progress and development of quality, and may serve as a marketing tool in competition. This can be achieved by planning, maintaining and continuously improving all processes to ensure higher profits, efficiency, customer satisfaction and so on. This, in turn, is related to the financial resources. The introduction of quality systems, improving all processes. It is desirable to improve based on real numbers. This creates confidence in the correctness of the upgrades introduced himself as the initiator of change, it also effectively motivate the company's management support. Quality costs are very different aspects of quality management systems. Higher quality costs associated with quality inspection (inspection), quality management and quality assurance. Quality management is based on the principles of quality management, continuous improvement, the decision based on facts. This principle is linked to the implementation of corrective and preventive actions. Of course, their implementation requires a fixed investment, which creates corporate governance issues: how such measures will cost and what the expected benefits? There is a need to identify the costs associated with quality.



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## **EMPLOYEE PERFORMANCE MANAGEMENT IN PUBLIC SECTOR: HOW TO MANAGE PEOPLE AFTER CRISIS?**

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**Keywords:** performance management, human resources management, efficiency, public sector.

Financial crisis in public sector in Latvia as well as in other Baltic states was most obviously manifested as a large scale downsizing and cost cutting. After crisis public sector has to revise the public expenditure targets and consider declining the quality and scope of offered public benefits, while retaining the most necessary services to inhabitants and entrepreneurs. To be able to succeed in such circumstances, it is necessary to revise the existing planning and management systems in organizations, including the way its human resources are managed. It makes an impact on requirements to employees and managers. The competencies and skills, which provided results during stable economic and social circumstances, are not so much relevant any more.

The **purpose** of the article is to present the main results of the research that was carried out in the public sector of Latvia on existing practice of employee performance management, changes required in the system and competencies of employees and managers in public sector. The basic elements of performance management system 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 results of the research are highly important to the enhancement of efficiency and effectiveness of Latvian public administration and its management. Its conclusions may be significant also for other countries with similar history.



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## STRATEGIC DECISION MAKING AT SMALL AND MID-SIZE COMPANIES USING THE EXAMPLE OF INFORMATION TECHNOLOGY ACQUISITION

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**Keywords:** Strategic Decision Making, Enterprise Resource Planning (ERP), Small and Mid-size Entities (SME), Information Technology (IT), Acquisition.

Strategic decisions have been made in each and every war in history but the term strategic decision making in management has been discussed just in the 20<sup>th</sup> century. Theorists as Barnard, James March, Herbert Simon, and Henry Mintzberg laid the foundation for the study of managerial decision making. The awareness of a dependency on culture, economy and politic has resulted in a movement away from the traditional approach to consider all aspects of psychologies, economists, sociologists, organisational theorists, statisticians, philosophers and others. Risk is an inescapable part of making a decision, especially a strategic decision, meaning the implications of it might be enormous [1] [2].

The strategic decision making process for small and mid-size entities (SME) is very critical and more relevant than ever given the need for globalization. Mid-Size companies understand their challenges in the global market. They need to focus on following their growth priorities while they find themselves squeezed by the effects of an increasingly tough global competitive environment [3]. Due to the historical approach and set up of these companies, business processes even for these very critical areas are not structured. Especially the question of “who makes the decision and how?” has rarely been analysed, it still follows the same established approach that the owner, CEO or head of the family business makes the decision.

As an example, one very critical and special event is the process of IT acquisition. It is a one off strategic decision process and instrument in which usually the decider has little or no experience. The acquisition is a fundamental cost factor. In a lot of industries in mid-size companies it is over 5% of the yearly turnover [4]. 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. The interviews with industry experts provide a clear overview of the current practice and support the hypothesis that awareness at senior management level from the very beginning would lead to successful long-term decisions. A clear and structured approach should be followed as well as experience from large entities leveraged for SME considering their specifics.

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## CONCEPTION OF PASSIVE INVESTMENT MANAGEMENT TOOLS

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**Keywords:** Passive Investment Strategy, Exchange Traded Funds, Financial Markets.

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 and illustrated a big challenge for all people involved, but especially for the average citizen who depends on a sufficient predictable financial future. Impressing examples for market turbulences in history are the Netherlands tulip mania in the 17<sup>th</sup> century, Black Friday on October 19<sup>th</sup>, 1987 (on this single day Dow Jones Industrial Average Index decreased more than 22 percent), bankruptcy of Long-Term Capital Management- (LTCM-) Hedge Fund in 1998 or not least worldwide financial crisis, beginning in autumn 2008 with all its impacts down 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 of what is the best way how to proceed. In a sophisticated view it is the question how to reach a preferably high risk adjusted rate of return. Few topics 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 on the actual market situation and tries to act according to it, while passive management means that an investor tracks an index as it actually performs. Proponents of active portfolio management propose with the help of intensive research and smart stock-picking to produce an additional benefit for investors, but it is a well-known fact that an ordinary active portfolio manager in the long run is not able to beat a given benchmark.

The objective of the paper is to introduce passive investment portfolio management as relatively new investment tools like Investment Certificates and especially Exchange Traded Funds (ETF's) or Exchange Traded Notes.

The topic becomes more and more important because public pension schemes in European societies will not be able to guarantee an adequate standard of living for its citizens, so most people are down to provide for their financial future on their own, and therefore the question becomes evident which kind of investment tools are most expedient for the certain intention.



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## **WOMEN AS LEADERS OF LOCAL GOVERNMENTS – SITUATION BEFORE AND AFTER ADMINISTRATIVE TERRITORIAL REFORM IN LATVIA**

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**Keywords:** gender equality, leadership, women, local governments, regional reform.

Women in EU still account for less than 30% of councillors while at the same time in Latvia 23% women are city mayors, from all deputies women are 35.75% in local government. For now in Latvia there are 110 local governments and 7 cities of national importance (woman is a leader in one), but situation has changed nearly after author's first research in local governments in Latvia at 2004-2006 (with women leaders in local governments). In 2006 there were 192 women leaders from 524 local governments (the highest percent in EU).

Local government reform was one of the most important tasks targeted in Latvia's transformation, with the main goals: democratization and decentralization of state power and administration, increasing accountability of local governments in fulfilling the tasks delegated to them, improvement of the quality of public services rendered to local residents and increasing public participation in the processes of administration.

This article provides an analysis of changes after local government reform in the field of gender equality. Results gained from author's research with chairwomen of local government councils.



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## USING LOGISTIC REGRESSION MODELS TO PREDICTING PROBABILITY OF INSOLVENCY OF ENTERPRISES

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**Keywords:** logistic regression model, probability of insolvency, test sample, training sample.

The paper is devoted to the possibility of using logistic regression to predict the insolvency of enterprises. To model the probability of insolvency was used binary choice model. Logit-model is based on historic data on bankruptcy of enterprises and indicators of their balance sheet. Logit-model divides the company into 2 groups. To assess statistical differences in the values of the factors included in the model, nonparametric methods are used. This paper describes methods of practical application of the model.



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## LABOUR TAX CHANGES EFFECT ON SOCIAL PROCESSES IN LATVIA

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**Keywords:** labour, human resources, personal income tax, social processes, state social insurance tax.

Growth of the country can be measured by various quantitative and qualitative indicators. As the quantitative indicators GDP, balance of export and import quantity, government revenue and spending, investment in the country, as well as specific branch trends are used. As the quality indicators, by author's opinion, national population education and cultural level, the level of welfare, labour productivity and inhabitant's health indicators should be identified. According to the author, quantitative indicators can be characterized by relief of qualitative indicators. For example, the higher labour productivity, the less resource needed to produce the same amount of GDP. The main growth of the national quality resource is human capital or in economic interpretation – labour. Author researching questions about the role of labour, concludes that there is a never-ending relationship between the growth and labour. State economic development can not occur without the labour force participation, labour force, which includes unique human resources, guide the production processes. Why do we need progress? Economic development results reuse population – labour to improve their quality of life. Inhabitant is the central impellent behind the country's survival and development.

The **aim of research** is to find theoretical and empirical evidence whether the labour tax changes affect the social processes in the country and what is the trend of impact in dynamics.

Population quality of life characterizes social processes in the country. For analyzing and measuring social processes the author uses frequency distributions and correlation analysis. The author chooses the analysis of such social processes, which would be important for business environment analysis. The author for analyses uses the social processes characterizing empirical data on economic activity of population, employment and unemployment, wages, labour costs and productivity, social security. Mentioned social processes are researched in the state social insurance contribution context, i.e. whether there is a correlative relationship between social insurance tax contributions and government spending to provide social processes continuity.

For analysis the author uses 10 year long period during which social breakdown contributions by types of social insurance changes are analyzed and whether it constitutes a correlative relationship with government spending on social processes types.

According to the author, the quality of life without social insurance tax contributions is also characterized by the personal income tax trends. The author by analyzing collected personal income tax correlative relationship with the welfares indicators would prove the hypothesis that the personal income tax is a direct indicator of population living standards measurement.

The author researching and analyzing social insurance tax and personal income tax contributions correlative relationship in context of government spending structure of the social processes in ensuring concludes that there is a close correlation between labour taxes and social processes in the country. The author makes a proposal to legislature to coordinate spending of social security and contributions of labour taxation analyzing both of these elements structure.

