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Foreword

The established tradition to annually publish a Journal in social sciences for a long period is positive experience that allows the authors of papers to share their experience and knowledge on pressing problems of development at regional, national and international levels, analyses of a national economy and business and solutions to socio-economic problems as well as allows acquiring new ideas and skills for future research.

In Journal No. 7, the authors tackle such urgent issues as possibilities of the regional higher education institution to reduce emigration, risks affecting attractiveness of the city, youth unemployment, development of competences in professionals engaged in the tourism and hospitality industry, enterprise management, financial, accounting, tax, legal, etcetera problems.

Since the first publication in 2009, the Journal's set of topics has expanded, and the number of authors and higher education institutions from Latvia and abroad has increased.

This year the Journal contains research findings of scientists, academics and doctoral students from Latvia and other countries (Poland, Germany and Slovakia), and its purpose is to create a forum for the exchange of academic opinions and discussions.

Every opportunity to publish research findings is important to contribute to faster development of science and, in its turn, of the whole national economy. This year the Journal's papers are published in English in order to promote international scientific communication.

The editorial board hopes that our Journal has contributed, contributes and will contribute to economic growth in Latgale Region, Latvia and the entire European Union.

The research papers may be useful for professionals who are interested in various social science problems and their solutions, academics, master and doctoral students, researchers and representatives of enterprises.

The editorial board notes that there is a group of authors whose papers have been published in several or even all the seven issues of the Journal and looks forward to successful cooperation with them in future as well as will be glad to expand the range of authors, focusing on new crucial problems and their solutions. The editorial board thanks the authors of papers, the peer reviewers and the cooperation partners for their contribution to the Journal.

Dr.oec. Anda Zvaigzne
Chief editor of the journal

ETHICAL ASPECTS OF SUSTAINABILITY

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Abstract. *Ethics can be defined as a reflection on nature and a definition of “the good”. Individuals value qualities and things dissimilarly, most visibly, but they also value their goods in different ways, in different relations to each other, for different reasons, and to different ends. These differences are very applicable to sustainability. In other words, sustainability cannot be achieved without attention to its ethical dimensions. The aim of this research is to examine the ethical aspects of sustainability. Consequently, the main tasks of the research are: to define a reason for developing the ethics of sustainability and to describe the ethical context of sustainability. The following primary research methods are used: the monographic method, analysis, scientific induction and deduction. The key results are: a survey on the responsibility to the next generations and categorized values of the ethics of sustainability. All forms of sustainability in society depend on the human conduct. Therefore, the ethical aspects of reality are of larger significance in ensuring sustainability. Ethical sustainability needs to be realized in order to have sustainable political and social systems and processes.*

Keywords: *ethics, sustainability, development, justice, solidarity.*

JEL code: *D63, Q56, I38, F63.*

Introduction

Ethical context is understood in the term of sustainability, as sustainability means taking into account not just the effectiveness, but also moral values and goals. Sustainability cannot be achieved without attention to its ethical dimensions. The ethical aspects of sustainability often remain implicit as most analyses focus on the economic, social, environmental, and technical issues. It is one of the main tasks of this research. The current research contributes to this goal by describing the ethical context of sustainability. The aim of this research is to examine the ethical aspects of sustainability. Consequently, the main tasks of the research are: to define a reason for developing the ethics of sustainability and to describe the ethical context of sustainability. The following primary research methods are used: the monographic method, analysis, scientific induction and deduction.

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values of the ethics of sustainability. The hypothesis to be proved is as follows: sustainability has ethical aspects.

Firstly, this paper discusses reasons for developing the ethics of sustainability. Secondly, it clarifies the ethical context of sustainability. Thirdly, it outlines some of the most important characteristics and principles of the ethics of sustainability. In other words, the base of this research is to explain how sustainability has an ethical dimension and to examine the most appropriate values of the ethics of sustainability. These discussions clarify the questions of great importance for specialists and scientists, as well as politicians, non-governmental organizations, and other citizens who search for a more sustainable society.

The ethical questions have occupied the human mind since ancient times. Civilization or culture with ethical rules constrains people to follow “the right path”. This research describes the ethics of sustainability providing the moral and rational basis for implementing sustainability as a framework to improve decision-making. Sustainability is always an integrated process with multiple synergies and loops. Just as the social, environmental, and economic dimensions of sustainability can reinforce each other, so can sustainable practices at work. It proposes a set of principles to be used to guide decision-making. More often than not these choices are about technology and the approach allowing technologies to leave the laboratory without adequate debate and scrutiny which results in complex dilemmas for the global community. The ethics of sustainability described here will help change the decision-making process and ensure that the benefits of this kind of thinking to all generations will far outweigh any negative consequences.

Discussion and results

Reasons for developing the ethics of sustainability

At first, before addressing the issue of ethics, the question needs to be answered – what is philosophy? Philosophy can be defined in many ways – the eternal question of existence, love of truth, wisdom, a deeply personal world, humanity and human material; the principle of the search and revelation. Philosophy is a conversation with me and others. As French philosopher René Descartes aptly noted: “I think therefore I am”. It is just like the way always leads to seeking the unknown. Nowadays philosophy is linked to the issue of ethics as well.

Ethics is practical philosophy. It is teaching about the habits, customs and seeking a better life. The word ‘ethics’ itself is neutral, it implies neither good nor bad. It just identifies a particular person or a group of people in action against the traditional system of values. Ethics

is a lesson of one's life. It can benefit people to recognise the values to be of the greatest importance to them and analyse possible actions or results in relation to these values. However, ethics is not only about applying pre-established rules to clear situations.

Do ethical issues matter in economics? As it is well known, economics is a social science, and for this reason it has a moral dimension. Economics deals with society and society deals with limited resources.

Professionals can reinforce the values of sustainability on multiple faces, by first educating themselves about the choices that will make a difference and then seeking changes – personal and structural – allowing those choices to take root. We cannot change our society if we ignore sustainability in one aspect of our lives. Instead, we must see and seek out contacts among diverse activities at home, at work, and in the community.

While single activities are not sufficient to create a more sustainable society, they are invaluable. Individual performance can help initiate and support structural changes, for example, by promoting direct sales to increase consumer demand for locally produced food. Large scale policy changes are required to transform the national food production and distribution system, but such changes may never get a start, even at a local level, without the pressure of individual choices. Such choices not only form support for policy changes, but also provide good examples stimulating other individuals to start more sustainable practices. For example, a colleague buying potatoes at direct selling can inspire others to try the same. However, without any individual connection these changes might not seem possible. Individual connections also make sustainable activities more enjoyable and thus more probable to continue.

Sustainability is an important idea generally referenced and widely supported. Sustainability is usually understood by the stable pursuit of three goods: ecological social equity, health, and economic welfare. It is grounded on the ethical commitment to the well-being not only of contemporary populations, but also the comfort and enhanced opportunities of future generations.

Nowadays the word 'sustainability' is used more and more frequently from a wide variety of perspectives and with a number of different purposes in mind. As a result, the 'sustainability' is becoming harder to define. Probably the best known basic definition of sustainability is stated in *Our Common Future*, also known as the *Brundtland Report*, from the United Nations World Commission on Environment and Development (WCED) published in 1987: "...meeting

the needs of the present without compromising the ability of future generations to meet their needs” (Kilbert et al., 2010). Much work has occurred since the *Brundtland Report* to explain the worldwide consensus about the goals of sustainability, development of subsequent and previous global efforts (such as *Agenda 21*, *The Earth Charter*, *The Rio Declaration*) on sustainability goals, standards, and models.

The most essential aspect in this definition is the planned responsibility of contemporary society for the quality of life of today’s population plus the preservation of resources, environment, and other ingredients needed for future populations to also experience a good quality of life. It is a huge and daunting mission and requires enormous changes in the way of thinking, policy, and basic assumptions about the economy for its full implementation. At present, it would mean that wealthier, more technologically urban societies would have to contribute materially through a wide range of assistance programmes to increase the wealth of poorer nations. They have to aid them in raising the ability to provide the basic needs of their population. For future generations it means guaranteeing the availability of a wide range of resources, for example, natural, cultural, educational and many others providing a good quality of life.

It is normal to set a question: why should we apply the sustainability basis? Interdependence, rights and obligations shall be used to answer this question. Everyone on the Earth has a right to having their needs for food, housing, and clothing met. Present people have a duty to future generations to provide them a complete and functioning planet in at least as good state as they received it. The request of the sustainability framework therefore requires a better understanding of the ethical concepts.

Through a better understanding of the ethics of sustainability it becomes clear why the sustainability framework is not only an approach to addressing and answering many difficult problems facing us, but why it is, in fact, the right approach, the right thing to do.

The issue of how to frame ethical problems in constructive and fruitful ways is vital but underappreciated – it is especially applicable for difficulties of sustainability where popular discourse often defines problems as stark choices between economic or environmental goods. In such situations, one of the most important tasks of ethics is asking questions that help lead to good solutions. Philosopher Anthony Weston (1971) notes that “if we are to find the best solutions to our ethical problems, we first need to find the best problems” (Kilbert et al., 2010).

Ethical societies provide tools for thinking about problematic issues in a complicated world. Therefore it is a vital component of successful

and effective decision-making processes. It is especially important for sustainability which seeks to integrate diverse and sometimes conflicting ethical and practical goals.

The ethical context of sustainability

Sustainability suggests that in the decision-making process societies having a good quality of life have an obligation to ensure that both future societies and contemporary, less well-off societies are also able to achieve a standard of living in which their basic needs are met.

The Whistler 2020 (Canada) sustainable community movement describes sustainability as "... a minimum condition for a flourishing planet in the long term" (Kilbert et al., 2010).

As noted earlier, the classic *Brundtland Report* definition of sustainable development is as follows: "[development] that meets the needs of the present without compromising the ability of future generations to meet their own needs." Really this definition proposes a new ethical concept that frames the privileges of both present and future generations. It is a gap between the rights of the future versus present generations and suggests that everyone's needs should be fulfilled before the wants of some are addressed.

Even as issues of both intergenerational and intergenerational justice are raised by this definition, some clear dilemmas arise. For example, how is it possible to define the needs of future people when the needs of the majority of the world's present population are not being met?

M.P. Golding addressed this problem in 1972 when he suggested that a moral community can be organized only in one of two ways – by an explicit contract between its members or by a social arrangement in which each member benefits from the efforts of other members. With respect to future generations neither an explicit contract nor social arrangement is possible and thus rights cannot be attributed to future generations as a result of a contract or social arrangement (Kilbert et al., 2010).

At the end of the nineteenth century and beginning of twentieth century rationality became more and more important in economic studies. But at the end of the past century this perspective changed and more attention was paid to the ethical aspect of economy. Considering it, the analysis of core economic problems of the countries could get better.

One example of this new point of view is the work of Nobel Prize winner Amartya Sen (1999) *On Ethics and Economy*: it is the analysis of the economic impoverishment due to excluding ethical components in its analysis. This author also states that there are relevant advantages and

improvements in the analysis when economics introduces ethical characteristics in its studies (Rogers, 2008).

Another contemporary author Elizabeth Anderson (2004) investigates the social relations of creditors and debtors what she calls as the ethics of debt and the ethical assumptions of the economic theory. She describes the history of the ethical and moral dimension of debt from the Biblical time to the latest economic theory schools.

However, when the economic analysis introduced such a concept as efficiency, the main objectives were maximization of profits and efficiency in allocation of resources. This new concept implied that the ethical base of economy lost its importance. More relevance was given to the practical aspect of economy. This view was changed just at the end of the twentieth century, and the interest in ethical issues in economy was converted.

Although the ethics of sustainability will rightly vary according to the context, culture, and other factors, it is possible to summarize some of the main features the acceptable ethics of sustainability should possess to some degree:

1. the goal of sustainability by its definition is future-oriented, the ethics of sustainability must take into account the relations between the present and future generations;
2. the ethics of sustainability, like any social ethics, should address the question of rights or interests;
3. the ethics of sustainability should be feasible or practical;
4. in both cases individuals and groups may incur duties or responsibilities in relation to the rights and interests of others.

The goal of the ethic of sustainability is to guide people in their efforts to address real world problems and build more socially, environmentally, and economically sustainable institutions, practices, and societies. The ethics of sustainability cannot succeed only in the realm of theory because, as Kant famously declared, ought implies can (Kilbert et al., 2010). Sustainability without ethics is an empty shell, e.g., sustainability lacks a generative purpose and ends serving as a guide for reflection if we do not reflect the culture, values, and methods for realizing durable.

Why must we leave as much and as good for future people? What if that requires us to sacrifice money, work, time, satisfaction, etc.? Another interesting question is: must we sacrifice just as much for the people in the far future as for the people in the near future?

The author of this research has conducted a survey with just one question – you have 1000 EUR that you must give to the future people; what amounts will you give to people of each year? It is possible to give

money to the next generations that will live in the following years: 2025; 2055; 2085; 2115 and 2145. The question was asked to 57 students.

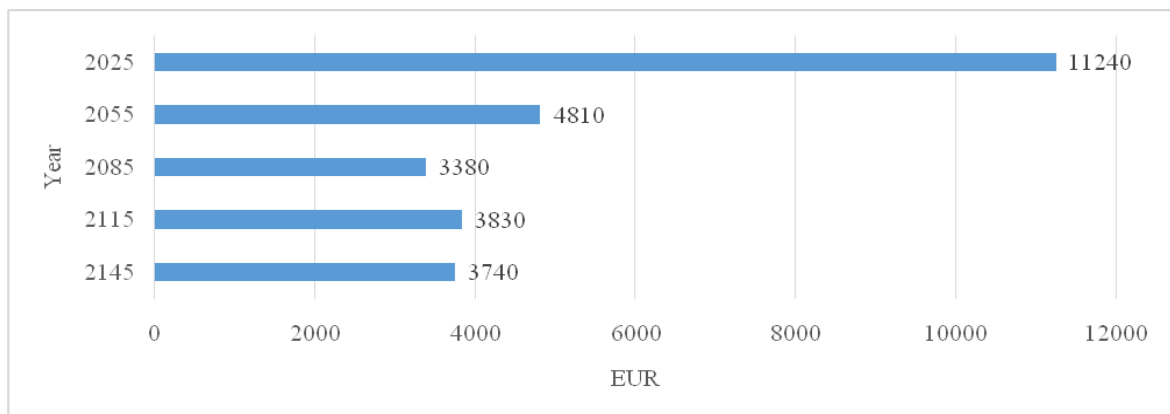


Fig. 1 Money given to next generations
(Source: compiled by the author)

The students gave the biggest amount of money (11,240 EUR) to people who will live in 2025. Typical prejudices are: nearer future people are closer relatives, so we have stronger obligations to them; most future people are non-existent, therefore, the question is why we should make sacrifices for non-existent people; they will have knowledge and technology we cannot predict; future people will be richer than us. A very strong principle is: "first-come, first-served!"

In addition to general features, the ethics of sustainability must address a number of definite values helping fill out the most important principles of sustainability in relation to economic, social, and environmental aspects. Obviously, not all ethics of sustainability will be equal in relation to these matters. Though, suitable and complete ethics of sustainability must deal, in some way, with the following values.

Sustainability offers traction to the idea that we are obligated to reflect future generations in our policies, in our interactions with nature, in our production, and in our daily decision-making. These are all matters that require an on-going ethical discussion.

Alternatively, if future generations shared the same interests or social ideals as present people, then it could be argued that they have rights equal to ours, it is possible that, due to technological progress and other factors, it is not imaginable the conditions of future generations and their conception of life and values. Walter Wagner (2002) suggested that if we recognized the rights of future generations, then we would experience a greater degree of self-actualization and wellbeing (Atkinson et al., 2014).

Another lens to view the issue of future generations is that our ancestors have highly helped us and that we have an analogous obligation to the future. In addition to the positive benefits which must be passed on to future generations, destructive consequences must not be passed on, for example, modern technologies such as genetic engineering are likely to pose warning threats to future generations.

Therefore, if sustainability recommends an obligation to the well-being of future generations, how to deal with technology progress and application must be the issues of concern. The Earth is stated as a single ecosystem; major ecological injury in any area affects the entire system. Without a sense of community sustainability will not be realised. Someway the ability of individuals to view themselves as a part of the global community is dependent upon a global life to be achieved.

Table 1 Values of the ethics of sustainability
(Source: compiled by the author)

| | |
|----------------------|---|
| Economic | Regulation of the market in order to address the true costs of pollution (the “polluter pays” principle). |
| | “ Perverse subsidies ” helping make environmentally unhealthy products cheaper. Perverse subsidies are especially widespread in agriculture. |
| | Obligation to help the poor persons in need – the right to take from the rich. |
| Social | Obligations to future generations – to leave adequate resources, preserve a fair, democratic society, etc. |
| | Justice: procedural (establishes rules and standards by which decisions are made to ensure both political democracy and the rule of law); distributive (concerned with fair or correct distribution of goods (also to environmental goods such as clean air and water and perhaps access to recreational or wilderness land) in the society); substantive (refers to absolute numbers – while distributive justice might insist that a small amount of food be shared equally among starving people, the principle of substantive justice would seek to provide those people with an absolute amount of food adequate to their needs, not just with a fair share of an inadequate amount). |
| Environmental | Human welfare |
| | Ecosystems or natural systems and organisms |
| | The precautionary principle was formulated to address scientific and technological projects that may have effects on environmental and public health. |

All these principles emphasise that the individuals responsible for implementing technologies must be ready to address possible consequences of their implementation. It requires policy-makers to

reflect upon as many different choices as possible before acting and consider as fully as possible not just the likely but also possible outcomes of those actions. Individual human welfares, even the collective interests of a certain generation, are not complete; they are significantly limited by responsibilities to other persons, including those not yet born.

Conclusions and suggestions

Sustainability is a meta-concept applied in the formation of the bases that are planned to be useful to real conditions to guide government, organizations, citizens, etc. on a route where both present and future generations can have the potential for a good quality of life. Sustainability has proven its stable power nowadays. Behaviour conducive to sustainability can be learned and passed to future generations.

An aspect of sustainability is the attempt to integrate a various set of ethical principles and goals in both practice and theory. Sustainability is not simply a combination of different values, but a combined scheme in which the parts work together to reinforce each other.

Sustainability is about ethics because it requests the existing people not only to consider the condition of the current impoverished population, but also the possible condition of future inhabitants. Obviously we are approaching the consequences of climate changes and resource depletion. Therefore, the question of our responsibility to the future is ethical responsibility to be addressed and better understood. Sustainability forces us to the consequences of our behaviour in a way different from any other concept, and, as a result, developing ethical underpinnings of sustainability is essential to applying it as a solution for the numerous problems being met or shall be faced by current and future individuals.

In the case of a possible conflict between, for example, economics and environmental principles, the ethics of sustainability should not just select one, but should effort to make the most of both values to the possible degree. It may require considering varied options, including some that might not normally seem feasible. It may require attractive negotiations with individuals or groups which are not one's usual conversation partners.

All forms of sustainability in society depend on human conduct. Therefore, the ethical aspects of reality are more important in ensuring sustainability. Ethical sustainability needs to be realized in order to have sustainable political and social systems and processes.

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ILGTSPĒJAS ĒTISKIE ASPEKTI

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Kopsavilkums

Pētījuma centrā ir ilgtspējas ētikas aspektu raksturojums, kas nodrošina morālu un racionālu pamatu lēmumu pieņemšanai. Ilgtspēja vienmēr ir integrēts process ar vairākām sinerģijas cilpām. Ilgtspēju var nodrošināt dažādi aspekti: sociālie, vides un ekonomiskie. Pētījumā tiek ierosināts principu kopums, kuru var izmantot, lai atvieglotu lēmumu pieņemšanu jautājumos, kas ir saistīti ar ilgtspējas nodrošināšanu. Pētījuma mērķis ir izpētīt ilgtspējas ētiskos aspektus.

Pirmkārt, šajā pētījumā tiek analizēti ilgtspējas ētisko aspektu attīstības iemesli. Otrkārt, tas izskaidro ilgtspējas ētisko kontekstu. Treškārt, pētījumā tiek iezīmēti daži no svarīgākajiem parametriem un principiem, kas raksturo ilgtspējas ētiku. Pētījuma rezultāti palīdzēs dažādu jomu speciālistiem un zinātniekiem, kā arī politiķiem, nevalstiskajām organizācijām un iedzīvotājiem, kuri meklē pamatu ilgtspējīgākai sabiedrībai. Šis raksts, atsevišķos gadījumos, rosinās diskusiju par jautājumiem, kuri saistīti ar ilgtspējas nodrošināšanu, pieņemšanas procesu un nodrošinās jauna veida domāšanu, kas saglabās mūsu paaudzei uzticētās vērtībās nākamajām paaudzēm, t.i., ilgtspēja ir meta-koncepcija, kas aicina nodrošināt labu dzīves kvalitāti arī nākamajām paaudzēm.

Ilgtspējas ētikas aspektu pamatā ir mēģinājums integrēt dažādus ētikas principus gan praksē, gan teorijā. Ilgtspējība ir ne tikai dažādu vērtību kombinācija, bet jaukta sistēma, kurā atsevišķas daļas strādā kopā, lai papildinātu viena otru.

Ilgtspēja ir saistīta ar ētikas jautājumiem arī tāpēc, ka tā pieprasa no šobrīd dzīvojošajiem cilvēkiem, ne tikai domāt par nabadzīgajiem iedzīvotājiem šobrīd, bet arī rūpēties par to, kas sagaida nākotnes iedzīvotājus. Nepārprotami mēs esam tuvu sekām, kas saistītas ar klimata pārmaiņām un dažādu resursu izsīkšanu. Tāpēc jautājums par mūsu atbildību nākotnes cilvēku priekša, ir saistīts ar ētiku.

Attiecībā uz iespējamo pretrunu starp, piemēram, ekonomikas un vides aizsardzības principiem, ilgtspējas ētika princips neliek izvēlēties vienu prioritāro virzienu, bet gan pielikt pūles, lai lielākā daļa no abiem pretrunīgajiem virzieniem tiktu atrisināta.

Visas ilgtspējas formas sabiedrībā ir atkarīgas no cilvēku rīcības. Tāpēc ētiskie aspekti ir paši svarīgākie ilgtspējības nodrošināšanā. Ilgtspēja ir jārealizē pielietojot ētikas principus. Tikai tad tiks nodrošināti ilgtspējīgi politiskie un sociālie procesi.

Atslēgas vārdi: *ētika, ilgtspēja, attīstība, taisnīgums, solidaritāte.*

CALCULATION OF FINANCIAL INDICATORS IN A SINGLE-ENTRY ACCOUNTING SYSTEM

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Abstract. *The company's accounting data are a base for the analysis of its business performance. As provided by the legislation, the company can choose whether the accountancy is maintained in a single-entry or in a double-entry system. Exploiting the financial analysis formulas, an economic performance analysis could be easily enough performed by the enterprises keeping their accounts in accordance with the accrual principle. If the accounting registers are kept in a single-entry system, data provided in the financial reports cannot be used to perform the analysis employing the formulas of the financial analysis. Currently, in Latvia, the single-entry accounting systems are commonly used by the farming enterprises. These businesses often apply for various funding, hence the analysis of diverse indicators is required, though it cannot be performed using the existing financial report data. The paper aims to identify the differences between a single-entry and a double-entry accounting systems, to explore opportunities to modify and to adjust the formulas calculating the financial indicators, so they can be used in a single-entry accounting system. As a result of the research, there has been developed a methodology that allows relating the cash-based accounting indicators with the accrual-based accounting indicators. Consequently, the appropriate information could be obtained for the economic performance analysis by the companies using the single-entry accounting system. Applied research methods: the monographic or descriptive research method as well as the synthesis method, the modelling and the document analysis method.*

Keywords: *accrual accounting, cash accounting, financial analysis*

JEL Code: *M41, G33, G39.*

Introduction

Financial analysts have reviewed the issues of financial analysis providing examples of different sectors. However, financial analyses from the point of view of a single-entry accounting system have not been extensively studied; financial analysis techniques for the users of a single-entry accounting system have not been developed so far, thus ignoring this type of the accounting system and its users.

Funding the company that uses a single-entry accounting system, for instance, within the framework of a project, the investor cannot be sure

whether the money invested will pay off and the company itself will be a sustainable undertaking. In order to timely detect the threat of insolvency and to respond to a possible problem, each entrepreneur shall follow the variations in the company's financial indicators and shall be able to make informed financial decisions in a timely manner.

The paper aims to explore the differences between a single-entry and a double-entry accounting systems and to discover opportunities to modify and to adjust the formulas calculating financial indicators, so they can be used in a single-entry accounting system.

The following tasks are set to achieve the objective:

- 1) To explore the formulas for the calculation of the financial indicators and to identify differences between a single-entry and a double-entry accounting systems;
- 2) To identify advantages and disadvantages of each accounting system;
- 3) To describe the formulas exploited in the calculation of the financial indicators;
- 4) To adjust the existing calculation formulas of financial indicators to be used in a single-entry accounting system;
- 5) To draw conclusions and to elaborate suggestions on the adjustment of the financial indicators calculation formulas to be used in a single-entry accounting system.

Applied research methods: monographic or descriptive research method and the synthesis method; the modelling method; the document analysis method.

Hypothesis: Adjustment of data of single-entry accounting system makes it possible to obtain valuable information necessary to perform the economic analysis based on the general methods of analysis.

The legal regulations of the Republic of Latvia and specialized literature have been used in the research.

Research into the legal regulation

The Law "On Accounting" stipulates that all companies that are registered in the Republic of Latvia, regardless of their form of the economic operations, shall keep the accounting registers using the double-entry system. The law envisages that, in accordance with the Cabinet Regulations, the accounting registers could be kept using a single-entry system by individual merchants, individual enterprises, farming and fishing enterprises the turnover (income) of which from the economic transactions during the previous accounting year does not exceed EUR 300 000, and other natural persons who perform economic activities.

Table 1 Legislative and regulatory framework regulating the accounting organization for the system of single-entry accounting and the system of double-entry accounting
(Compiled by the authors)

| <i>Single-entry system</i> | <i>Double-entry system</i> |
|--|--|
| Law <i>On accounting</i> , adopted on October 10, 1992, with amendments | |
| The Cabinet Regulations No.585 , adopted on October 21, 2003 <i>Regulations on the conduct and organization of accounting</i> | |
| The Cabinet Regulations No.584 , adopted on October 21, 2009 <i>Regulations regarding accounting of cash-office operations</i> | |
| The Cabinet Regulations No.282 , adopted on May 02, 2007 <i>Procedures for using electronic devices and equipment for registration of taxes and other payments</i> | |
| The Cabinet Regulations No.188 , adopted on May 08, 2007 <i>Procedures for organization of single-entry accounting system for individual merchants, individual enterprises, farming and fishing enterprises, and other natural persons performing economic activities</i> | |
| <i>Guidance material on filling in The Journal of incomes and expenditures of the economic activities</i> | <i>International accounting standards</i> |
| The Cabinet Regulations No.301 , adopted on March 20, 2007 <i>Regulations on the financial accounts of individual merchants</i> | <i>Annual Accounts Law</i> with amendments to October 19, 2006 |
| <i>Methodological guidelines and letters by the State Revenue Service</i> | |
| Other legal regulations on the accounting and annual reporting of economic activities | |

The information summarised in Table 1 allows concluding that the basic requirements for the organization of the single-entry and double-entry accounting systems are governed by the same legal regulations. Nonetheless, the difference between both accounting systems is fundamental: the cash-basis accounting is used in the single-entry system; the accrual-based accounting is used in double-entry system. The essential is the difference in the preparation of annual reports: *The Annual Accounts Law* and accounting standards, which are not binding for the single-entry system, are employed in the double-entry system.

Aspects of the accounting

Single-entry accounting is a simplified register of the economic operations that could be carried out by the entrepreneur without professional knowledge in the field of accounting. The data registered in a single-entry system are mainly intended for the tax calculation and preparation of the tax declaration. In the single-entry accounting system, the cash-basis accounting principle is used providing that revenues shall be registered at the moment when a payment for the transaction is received, but the expenses – when they are paid. (*Leibus, 2006*)

The double-entry accounting system stipulates that every transaction using the account system shall be reflected in at least two accounts – one account in debit, the other account in credit – in compliance with the chart of accounts used by the company and the correspondence between the economic transaction and relevant accounts. The companies maintaining the accounting in the double-entry system use the accrual-basis accounting principle, which requires registering revenues at the moment the sales of goods, provision of services have occurred, even if the payment is not received at the time of the transaction. While the expenses are requested to be registered in the period these costs relate to. Nonetheless, the difference of both accounting systems is fundamental: the cash-basis accounting principle is used in a single-entry system; the accrual-based accounting principle is used in a double-entry system. The essential is the difference in preparation of annual statements. *The Annual Accounts Law* and the accounting standards that are not binding for the single-entry system are used in the double-entry system.

The company's annual report structure and the volume depend on the type of the income tax and, consequently, on the type of the accounting system that is exploited by the entrepreneur. Personal income tax payers keep accounting registers in the simple-entry system and submit the annual declaration of income. The company's income tax payers keep accounting registers in the double-entry system and submit the annual report in full.

The financial analysis indicators necessary for the single-entry system users can be obtained from the annual income declaration, the journal of incomes and expenditures of economic operations, analytical registries of receivables, payables, and fixed assets, as well as lists of inventories. There is no one single document where all the necessary information for the single-entry system users would be included.

The financial analysis indicators necessary for the double-entry system users are found in the annual report's balance sheet and the profit and loss account. Maintaining the accounting registers, all the

information required for the financial analysis is obtained, systematized, and compiled in the financial statement.

The main difference between the cash-basis principle and the accrual-basis principle is a moment of the recognition of revenues and expenses. Net turnover differences in the single-entry and double-entry accounting in a form of correspondence of accounts are reflected in Table 2.

Table 2 Adjustment of the correspondence of revenues and expenses accounts in accordance with the cash-basis principle and accrual-basis principle
(Compiled by the authors)

| Type of entry | Accrual-basis principle | Cash-basis principle |
|-----------------------------|--|--|
| Invoice for debtors issued | <ul style="list-style-type: none"> • Debit "Accounts receivable" • Credit "Revenues" • Credit "VAT payable" if the company is registered as a VAT payer | <ul style="list-style-type: none"> • Debit "Accounts receivable" • Credit "Deferred revenue" • Credit "VAT payable" if the company is registered as a VAT payer |
| Debtors' invoice paid | <ul style="list-style-type: none"> • Debit "Cash" • Credit "Accounts receivable" | <ul style="list-style-type: none"> • Debit "Cash" • Credit "Accounts receivable" |
| | | Adjusting the entries: <ul style="list-style-type: none"> • Debit "Deferred revenue" • Credit "Revenue" |
| Suppliers' invoice received | <ul style="list-style-type: none"> • Debit "Expenses" • Debit "VAT payable" • Credit "Accounts payable" | <ul style="list-style-type: none"> • Debit "Prepaid expenses" • Debit "VAT payable" • Credit "Accounts payable" |
| Creditors' invoice paid | <ul style="list-style-type: none"> • Debit "Accounts payable"; • Credit "Cash" | <ul style="list-style-type: none"> • Debit "Accounts payable"; • Credit "Cash" |
| | | Adjusting the entries: <ul style="list-style-type: none"> • Debit "Expenses" • Credit "Prepaid income" |

As reflected in Table 2, the cash-basis accounting principle users recognize the revenues and expenses at the moment the invoice is paid or the payment is received. In contrast, the accrual basis accounting principle users recognize the revenues and expenses at the moment the transaction is concluded and the invoice is issued. In accordance with Table 2, the accounts receivable and the accounts payable occur at the same time in both accounting systems – when the invoice is issued or received, and the debt is extinguished at the time of payment. Similarly, the cash generation is recognized in the same way in both accounting systems. The difference between the recognition of the revenues and

expenses that is set by the cash-basis and accrual-basis accounting principles may affect the company's profit.

Modelling the accounting information

Registering accounts in accordance with the accrual-basis principle, the revenues and expenses are recognized at the actual time they have incurred. Using the cash-basis principle, the revenues are recognized when incurred at the time of payment, hence, if the payment of the invoice issued at the end of the year is not made in the reporting year, it will reduce the profit of the reporting year, while, made in the next reporting year, when the payment is received, thus increasing the profit. This type of the revenue and expense recognition complicates the accounting process; additional adjustment of the entries shall be carried out, though, even that does not reflect a clear picture of the revenue and expenditure formation in the reporting year. VAT payers have different profits in accordance to the fact whether the cash-basis principle or the accrual-basis principle is used. In case the single-entry accounting system users have chosen a special VAT payment and deduction procedure, the VAT payments are recognized simultaneously with the recognition of the revenues and expenses. In case the single-entry system users have not selected a special VAT payment method and special calculation procedures, the VAT calculated will be analogous as the one using the accrual-basis principle.

Taking into account that both principles of recognition of the revenues and expenses admit incurring of the receivables and payables at the same moment, i.e. when the invoice is issued, the companies keeping accounting records in the single-entry system in accordance with the cash-basis principle, are able to specify the revenues and expenses of the accounting year that are requested for the financial analysis. Making corrections with respect to the accounts receivable and the accounts payable, adjusting them to the accrual-basis principle, it is possible to identify the correct annual turnover. (Generated by the authors)

$$\begin{array}{rclcl}
 \text{Net turnover} & & & & \\
 \text{in a single-entry} & & & & \\
 \text{accounting} & = & \text{Revenues} & - & \text{Receivables at} \\
 & & \text{of the} & & \text{the beginning} \\
 & & \text{accounting} & & \text{of the} \\
 & & \text{period} & & \text{accounting} & + & \text{Receivables at} \\
 & & & & & & \text{the end of} \\
 & & & & & & \text{the accounting} & (1) \\
 & & & & & & \text{year}
 \end{array}$$

Likewise, the operating expenses are adjusted in the single-entry system, so the indicators can be used for the analysis of economic activities.

$$\begin{array}{l} \text{Operating} \\ \text{expenses} \\ \text{in a single-entry} \\ \text{accounting} \end{array} = \begin{array}{l} \text{Expenses} \\ \text{of the} \\ \text{accounting} \\ \text{period} \end{array} - \begin{array}{l} \text{Payables at the} \\ \text{beginning of} \\ \text{the accounting} \\ \text{year} \end{array} + \begin{array}{l} \text{Payables at the} \\ \text{end of} \\ \text{the accounting} \\ \text{year} \end{array} \quad (2)$$

On the basis of the specified formulas of the revenues (net turnover) and expenses, it is possible to further specify the other formulas and to compute financial indicators, financial ratios in a single-entry system.

Turnover ratios describe how many times the assets at the company's disposal have circulated in a certain period of time. (*Arbidāne, 2009*)

Company's inventory turnover ratio characterizes the efficiency of use of the company's resources, and indicates how many times a full turnover incurs within a specified time period. According to some economists, the ratio should not equal less than three.

To determine an inventory turnover period, the single-entry accounting users shall perform an inventory at the end of each reporting year. The value of the inventory purchased and sold during the year shall be reflected on the inventory list. The single-entry accounting system users can compute the total inventory turnover ratio using Formula 3. (Generated by the authors)

$$\begin{array}{l} \text{Total} \\ \text{inventory} \\ \text{turnover ratio} \end{array} = \frac{\begin{array}{l} \text{Revenues} \\ \text{Receivables at} \\ \text{the beginning of} \\ \text{the year} \end{array} - \begin{array}{l} \text{Receivables at} \\ \text{the end of the} \\ \text{year} \end{array}}{\text{Average inventory balance}} \quad (3)$$

Assets turnover ratio indicates how efficiently the company's assets are used. To calculate the assets turnover ratio, the single-entry system users shall specify revenues generated by the economic operations and obtain the specified net turnover. On the basis of the inventory lists, the registers of the accounts receivable, and fixed assets' records, the company's assets shall be calculated. In accordance with the Law on Accounting, the company's assets include a residual value of the fixed assets, stocks, including work animals and food-producing animals, accounts receivable, prepaid expenses and cash. The assets turnover ratio for the single-entry system users is reflected in Formula 4. (Generated by the authors)

$$\begin{array}{l} \text{Assets} \\ \text{turnover} \\ \text{ratio} \end{array} = \frac{\begin{array}{l} \text{Revenues} \\ \text{Receivables at the} \\ \text{beginning of the} \\ \text{year} \end{array} - \begin{array}{l} \text{Receivables at} \\ \text{the end of the} \\ \text{year} \end{array}}{\text{Average sum of the fixed assets, stocks, receivables,} \\ \text{prepaid expenses, and cash}} \quad (4)$$

The single-entry system users can find a value of the current assets from the inventory list. To calculate the current assets in a single-entry accounting system, it is necessary to use inventory lists and the journal of the analytical records of the accounts receivable. The total current assets in a single-entry system will comprise purchased stocks, sowings, started buildings, own production, the value of food-producing and work animals, as well as the accounts receivable and cash value. The current assets turnover ratio calculation formula for the single-entry system users is reflected in Formula 5. (Generated by the authors)

$$\text{Current assets turnover ratio} = \frac{\text{Revenues} - \frac{\text{Receivables at the beginning of the year} + \text{Receivables at the end of the year}}{2}}{\text{Average sum of the stocks, receivables, prepaid expenses and cash}} \quad (5)$$

Receivables turnover ratio indicates how many times a year the accounts receivable turn into cash. The single-entry system users can calculate the receivables turnover ratio using Formula 6. (Generated by the authors)

$$\text{Receivables turnover ratio} = \frac{\text{Revenues} - \frac{\text{Receivables at the beginning of the year} + \text{Receivables at the end of the year}}{2}}{\text{Average value of the receivables}} \quad (6)$$

For the purpose of financial analysis, both receivables turnover ratio and payables turnover ratio are calculated all at once. **Payables turnover ratio** indicates how many turnover cycles are required for the company to settle with its liabilities. If the value of the payables turnover ratio is larger than the value of the receivables turnover ratio, it demonstrates the company's financial stability. (Mietule, 2013)

To calculate this ratio, the single-entry system users shall use the register of the accounts payable, the list of inventory, and the journal of incomes and expenditures of economic operations. The single-entry system users can calculate the costs according to Formula 2, while the payables turnover ratio – according to Formula 7. (Generated by the authors)

$$\text{Payables turnover ratio} = \frac{\text{Expenses} - \frac{\text{Payables at the beginning of the year} + \text{Payables at the end of the year}}{2}}{\text{Average value of the payables}} \quad (7)$$

As the result of the research, valuable formulas are obtained that could be used for the analysis of financial indicators applying them to the accounts that are maintained in the single-entry system.

Conclusions

Based on the research, the authors present a proposal for the financial analysts and the users of single-accounting system to use the methodology developed in the research and the adjusted financial calculation formulas for the purpose of the analysis in order to evaluate the financial stability of small companies.

Using this methodology, it is possible to compare the indicators received using the cash-basis principle to the indicators received using the accrual-basis principle, thus the correct data for the analysis of economic activities could be obtained. Hence, it allows the users of financial statements to use the data obtained in the single-entry accounting system in the following cases:

1. The opportunity to qualitatively assess the profitability of the company;
2. On basis of the results of financial analysis, to make conclusions about the indicators characterizing the turnover of debtors and creditors, as well as to forecast the cash flow;
3. Commercial institutions, investors, and institutions governing the acquisition of EU funds can make a more precise analysis of the financial status and the solvency of the loan recipients;
4. Entrepreneurs themselves can calculate the financial indicators for the analysis.

The hypothesis of the research was confirmed. The methodology was developed that can be used to adjust the main indicators of the single-entry accounting system to the double-entry system. To conclude, it can be stated that the adjustment of the single-entry accounting system data makes it possible to obtain valuable information necessary to perform the economic analysis based on the general methods of analysis.

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FINANŠU RĀDĪTĀJU APRĒĶINĀŠANAS IESPĒJAS VIENKĀRŠĀ IERAKSTA GRĀMATVEDĪBAS SISTĒMĀ

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Kopsavilkums

Finanšu analītiķi ir plaši aplūkojuši finanšu analīzes jautājumus, ar dažādu nozaru piemēriem. Par spīti tam, finanšu analīze no vienkāršā ieraksta grāmatvedības sistēmas viedokļa nav pietiekami plaši pētīta, līdz šim nav izstrādātas finanšu analīzes metodes vienkāršā ieraksta grāmatvedības sistēmas lietotājiem, tādējādi diskriminējot šo grāmatvedības sistēmu un tās lietotājus.

Raksta mērķis ir izpētīt atšķirības starp vienkāršā un divkāršā ieraksta grāmatvedību, izpētīt finanšu rādītāju aprēķina formulas pārveidošanas un piemērošanas iespējas vienkāršā ieraksta grāmatvedības sistēmā.

- 1) Izvirzītā mērķa sasniegšanai ir noteikti šādi uzdevumi:
- 2) Pamatojoties uz pieejamajiem literatūras avotiem izpētīt finanšu rādītāju aprēķina formulas un atšķirības starp vienkāršā un divkāršā ieraksta grāmatvedības veidiem;
- 3) Analizējot iegūtos datus, noteikt kādas priekšrocības un trūkumi ir katram grāmatvedības uzskaites veidam;
- 4) Raksturot finanšu rādītāju aprēķina formulas;
- 5) Pielāgot esošās finanšu rādītāju aprēķinu formulas vienkāršā ieraksta grāmatvedības sistēmai. Izdarīt secinājumus un priekšlikumus par finanšu rādītāju aprēķinu formulu pielāgošanu vienkāršā ieraksta grāmatvedības sistēmā.

Rakstā ir veikta finanšu rādītāju aprēķināšanas formulu pārveidošana un pielāgošana izmantošanai vienkāršā ieraksta sistēmā sagatavotajiem gada pārskatiem. Balstoties uz precizētajām ieņēmumu (neto apgrozījuma) un izdevumu formulām ir iespējams tālāk precizēt pārējās formulas un veikt finanšu rādītāju, finanšu koeficientu aprēķinus vienkāršā ieraksta sistēmā. Izmantojot šo metodiku,

kur rādītāji pēc kases principa tiek pielīdzināti uzkrāšanas principam, var iegūt korektu informāciju saimnieciskās darbības analīzei. Līdz ar to tas ļauj izmantot vienkāršajā ierakstā kārtotās grāmatvedības datus izmantot finanšu pārskatu lietotājiem šādos gadījumos:

1. Iespēju kvalitatīvi novērtēt uzņēmuma rentabilitāti;
2. Balstoties uz finanšu analīzes rezultātiem, secināt par debitoru, kreditoru apriti raksturojošiem rādītājiem, kā arī prognozēt naudas plūsmu;
3. Komerciestādēm, investoriem, iestādēm, kas regulē ES finansējuma apgūšanu iespējams veikt precīzāku analīzi par aizņēmuma saņēmēja finansiālo stāvokli un maksātspēju;
4. Paši uzņēmēji varēs aprēķināt finanšu rādītājus analīzes nolūkā.

Atslēgas vārdi: *vienkāršā grāmatvedība, kases princips, finanšu analīze.*

LATVIA AS A TOURISM DESTINATION FOR GERMAN TOURISTS

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Abstract. *The German source market offers a high potential for the Latvian tourism industry. This paper provides an analysis of the German outgoing tourism which allows evaluating how good the Latvian tourism market can satisfy the needs of the German outgoing tourists. This research study assesses the conformity between the needs of German travellers and the Latvian tourism offers.*

The methods used in this research study are as follows: evaluation and analysis of surveys, content analysis, graphical analysis and synthesis, logical and abstract constructive methods, reference methods.

Key words: *tourism development, tourists' behaviour*

JEL code: *R110, M390*

Introduction

Latvia is a unique tourism country because of its natural and cultural diversity and its people. Due to its geographical location Latvia forms the link between East and West. Latvia spans 500 km along the Baltic Sea coast and half of the territory of Latvia is covered with untouched, natural forests. The climate in Latvia is characterized by its four seasons. (18)

Latvia offers various types of tourism such as beach holiday or spa resorts by the Baltic Sea in the summer, nature holidays or the city tours in the capital of Latvia, Riga. Therefore Latvia constitutes a possible tourism destination for the German tourists. Holiday travels and short-term travels can be attractive for the German tourists. The German tourist market bears a high potential for the development of Latvian tourism industry. In 2013 Latvia received 123,400 overnight travellers from Germany. (5)

The aim of this research study is to analyse the opportunities of Latvian tourism offers and their capacities to promote the flow of tourists from Germany. To achieve this aim, several objectives are defined:

- To analyse german outbound tourism and tourists' behaviour
- To explore expectations of German tourists in 2015 and tourism trends in Germany
- To determine the target groups for the Latvian tourism industry

Hypothesis of the research: organized and all-inclusive roundtrips in Latvia with the focus on history, culture, nature, or health and medical

tourism are the most suitable tourism products of the Latvian tourism market offered to the German tourists.

This research study offers an analysis of the German outbound tourism to better understand the behaviour of German travellers. The analysed factors are as follows: the number and the types of travels, the purposes of travels, the most popular destinations, expenditures, transportation, the duration of a visit as well as the type of accommodation.

The main question is: Do the offers of Latvian tourism market suit the German tourists?

The methods used in this research study are as follows: evaluation and analysis of surveys, content analysis, graphical analysis and synthesis, logical and constructive methods, reference methods.

1. Analysis of the holiday outbound tourism in Germany

1.1. Holiday Travels and Short Travels

Differences between holiday travels and short-term travels lie in their duration. A holiday travel is a travel of at least five days, in its turn, a short-term holiday is a holiday lasting less than five days.

In 2014 the number of holiday travels was 70.3 million, 54.6 million of which were the German holiday travellers. (10)

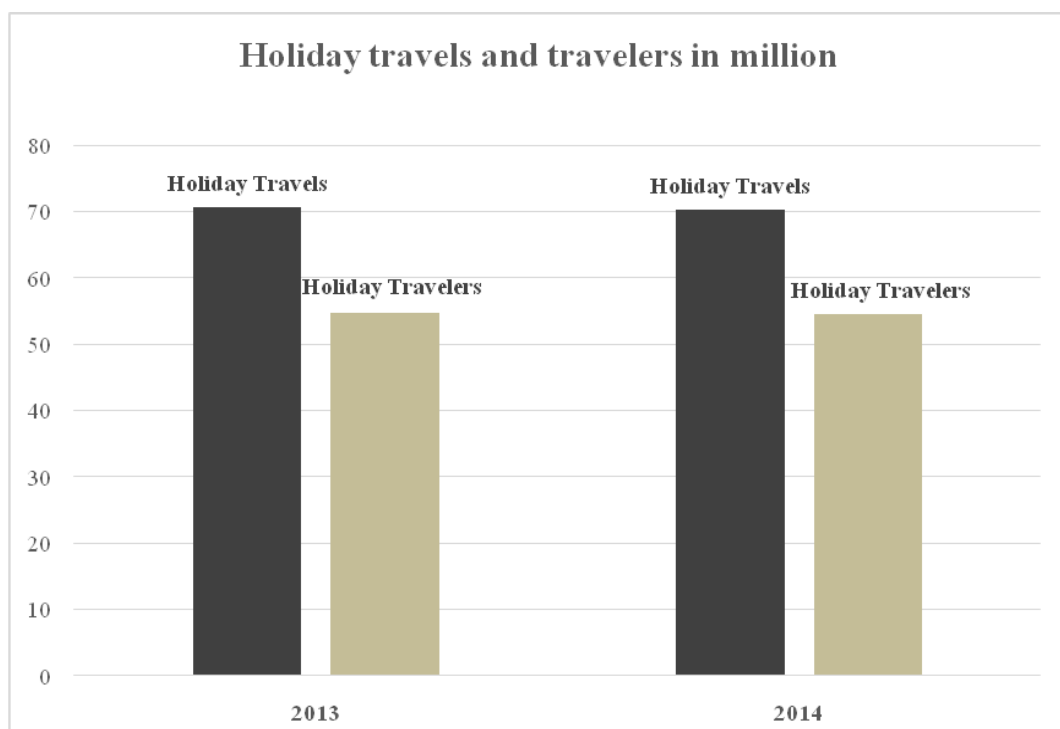


Fig. 1 Holiday travels and the number of travellers in million (Germany, 2014)

(Source: Forschungsgemeinschaft Urlaub und Reisen e.V., 2015)

Comparing these numbers with the figures of 2013, you can note certain stability at a high level. In 2013, 70.7 million holiday travels were made by 54.8 million travellers. The figures of 2013 reflect the highest amount of German travellers in history. (10)

These numbers are equivalent to a travel intensity of 77.4%. This figure reflects the percentage of the population which went on at least one holiday travel for at least five days in 2014. (10)

The frequency of travel in 2014 was 1.29, it shows the average number of travels per person. (10)

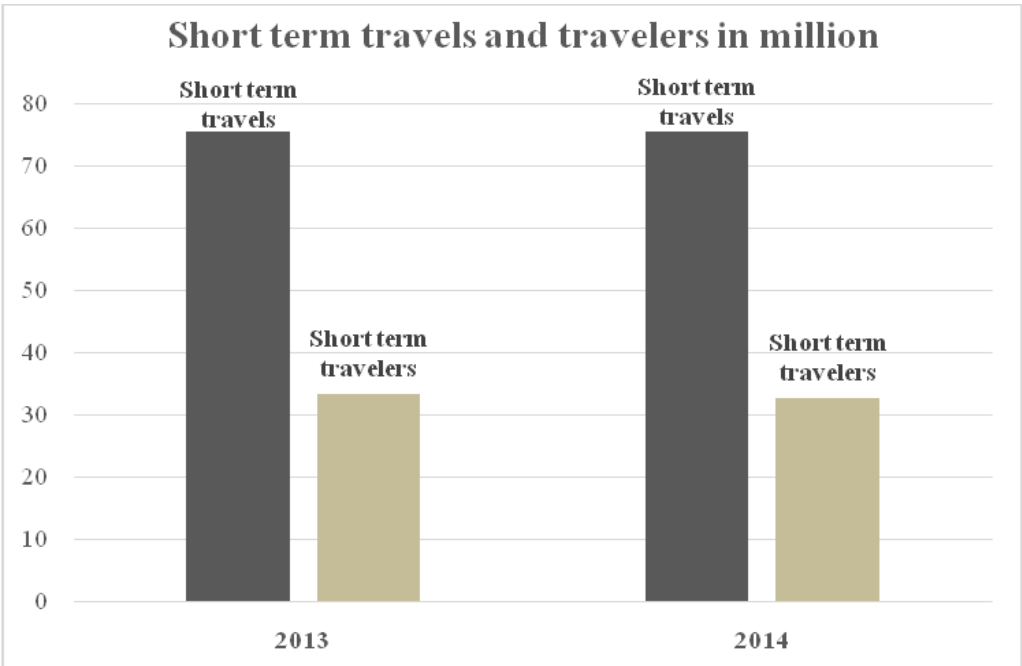


Fig. 2 Short-term travels and the number of travellers in million (Source: Forschungsgemeinschaft Urlaub und Reisen e.V., 2015)

The number of short-term holidays is stable and remains at a high level similar to the holiday travels. In 2014, 32.6 million short-term travellers went on 75.7 million short-term holidays. The travel frequency of short-term travels was 2.32 per person in 2014. (10)

In 2013 there were 33.3 million travellers who made 75.6 million short-term travels. (9)

1.2. Purpose of travel

According to the data obtained from the surveys, the most popular type of holidays for Germans are beach and bathing holidays (55%). (10)

Latvia is rich in seacoasts and beaches and therefore offers the possibility to go on bathing holidays. The most famous seaside resort is Jurmala, located 25 km away from Riga. Nevertheless, despite having

beautiful beaches and coasts, it cannot be considered a typical bathing destination. There is one fixed factor which makes this impossible: the climate. Due to its geographic location, Latvia has a cool moderate climate. The yearly average temperature is 6 °C. The summers are moderate warm and the temperatures are around 17 °C. Summer in Latvia lasts from June till September. It means that Latvia can satisfy customer needs and become a tourist destination considering the most popular motivation of Germans, namely, to go on bathing holidays, only to a certain degree. Consequently, one disadvantage of Latvia as a bathing destination is the seasonality and its climate. Moreover the German tourists who like to travel to the Baltic Sea also have the possibility to spend their holidays in their home country, in Germany. It requires fewer efforts, due to the language and the distance. Furthermore, Poland is another competitor with its significant advantages, i.e. shorter distance to the German source market and lower prices. (8)

Apart from other countries which border to the Baltic Sea, there are also various competitors in other areas; predominantly these are the countries around the Mediterranean Sea like Spain, France, Italy, Greece and Turkey. These countries have a greater advantage - the climate. Besides, German travel agencies offer a lot of cheap package holidays to these destinations.

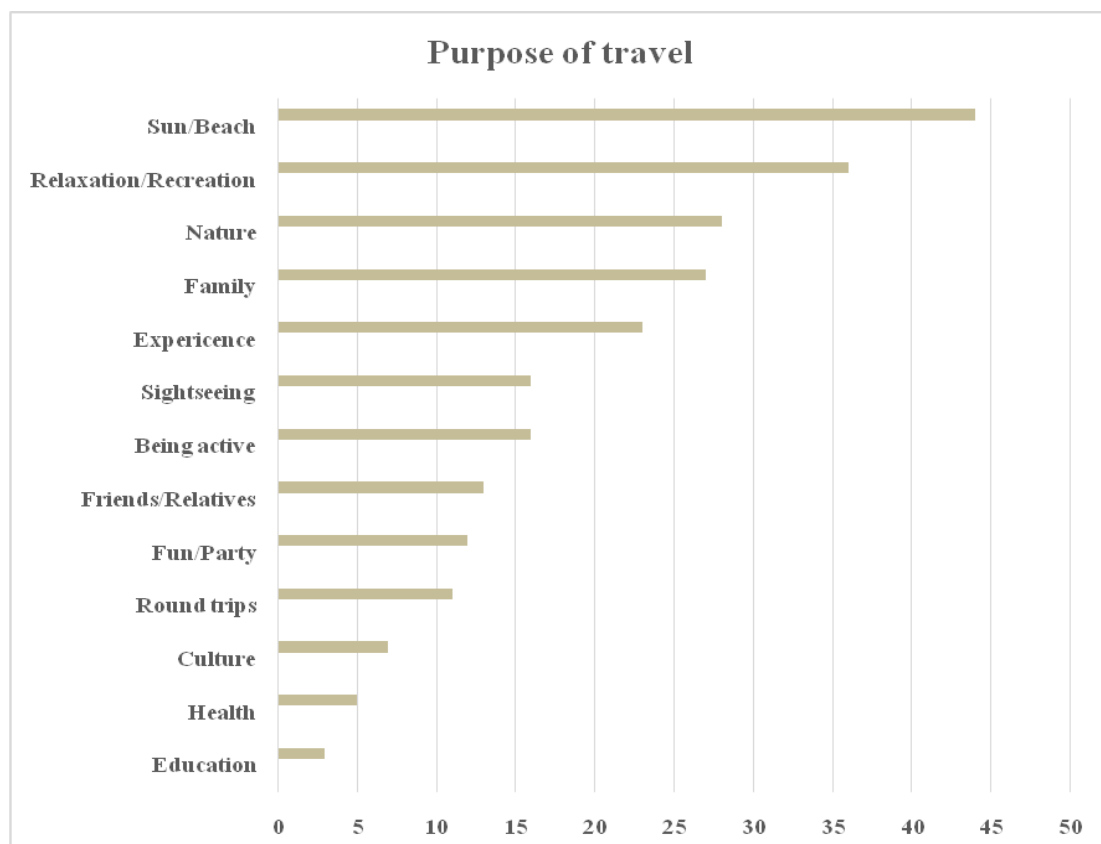


Fig. 3 Purpose of travel %

(Source: *Forschungsgemeinschaft Urlaub und Reisen e.V.*, 2015)

More than 40% of the holiday travels are package tours or module travelling which are organized with the help of travel agencies or tourist offices. In Germany there are over 9,800 tourist offices and more than 2,500 travel agencies. This tourism infrastructure, mainly characterized by medium-sized suppliers and some big corporations, is unique to this world. (6)

For decades, the main motivating factors for German holiday travellers have been relaxation and recreation which appear to be the second important on the list of motivating factors for German travellers (36%). In 2014 the majority reported that their holidays were satisfying. (10)

The third biggest motivation for going on holidays is experiencing the nature (28%). (10)

In contrast to the bathing holiday, the conditions for relaxation, recreation and enjoying the nature in Latvia are better. In Latvia there are various spa and health resorts which have a wide range of offers, concentrating on wellness and spa services. The companies and hotels focused on spa and health are mainly located in the area around Riga, Jurmala, Liepaja and Ventspils. (12)

In Latvia there are four nature reserves, four national parks and 21 biosphere reserves. These reserves are characterized by their untouched nature and are protected by law. (15) The Latvian landscape is rather vivid; there is a long coast, a lot of forests and many lakes. In Latvia there are many different activities to enjoy the nature, such as walking through the woods, picking mushrooms or watching birds.

These travel motivations are dependent on the climate, similar to the bathing and beach holidays. In the summer season the needs of the German tourists are easier to satisfy. However, there are different possibilities to offer tourism products embracing also other seasons. For instance, Latvia is famous for its bathhouse culture as well as other wellness and spa services that can be offered all the year round.

Especially winter can be a highlight for tourists who are interested in the nature.

For the purpose of sightseeing, Riga plays the most important role in the Latvian tourism market. Riga, with more than 700,000 inhabitants, is the biggest city in the Baltic States and a UNESCO world heritage as well. Riga combines various types of tourism, such as culture, architecture, gastronomy, recreation and relaxation, wellness and beauty, shopping, and health. Especially regarding the short-term travels Riga satisfies the needs of a tourism destination. (17)

People who want to do a round trip can do it in Latvia, visiting different cities and enjoying landscapes. However, Latvia is more suitable

as a tourism destination integrated in an international round trip. For instance, it can be integrated into a round trip through the Baltic States or visiting Riga as a part of a cruise in the Baltic Sea.

Latvia has a colourful past and its culture faced intense influence if we are looking back on the historical aspects. Therefore it can be stated that the Latvian culture is abundant and diverse and is suitable for the German tourists who are interested in history and culture. Latvia is also rich in art and music; there are different operas, theatres and music festivals. Additionally Latvia offers cultural activities such as handicraft or cookery courses for traditional Latvian food. (14)

Another fact about German travellers that has a certain degree of importance for the Latvian tourism industry is health and medical tourism. For a lot of Germans, medical treatment in foreign countries is a real alternative to the medical treatment in Germany. Latvia offers medical and health services at a lower price and ensures nearly the same quality as western countries do. (3) (20)

Latvia offers various healthcare treatment programmes and services such as rehabilitation, dental care, eye care or plastic and reconstructive surgery. (13)

The motivation of getting new experience and being active are combined with other types of travel. For example, you can be active during your summer holidays and do different types of water sports. Or combine your holiday in the nature with winter sport activities or a culture trip with handicraft.

A change in the motivations may be expected in the long-term. The reasons for going on holidays will vary. For instance, relaxation, action and culture are not the only motivating factors to initiate holidays. These motivations will be combined. The holidays should be exciting and at the same time should have elements of relaxation and recreation.

Consequently, the holiday types that are possible to combine prevail and have the highest growth potential. (10)

1.3. Most popular Destinations

Germany with a market share of 31% was the most popular destination of the German population. 7.6% of the holidays are long-distance journeys. The rest of the holidays are short-distance and medium-distance journeys. (21)

The most popular states in Germany are Mecklenburg-Western Pomerania (6%), Bavaria (5.9%), Schleswig-Holstein (4.2%) and Lower Saxony (4.0%).

It is noticeable that three out of the four most popular destinations in Germany are the states with coasts and islands. For the German

outgoing tourism, the destinations of the Mediterranean Sea are highly appreciated.

Table 1 The most popular destinations for holiday travels
(Source: Stiftung für Zukunftsfragen, 2015)

| No | Destinations in Germany | Destinations in Germany,% | Foreign Destinations | Foreign Destinations,% |
|----|-------------------------------|---------------------------|----------------------|------------------------|
| 1. | Mecklenburg-Western Pomerania | 6.0 | Spain | 13.5 |
| 2. | Bavaria | 5,9 | Italy | 7.8 |
| 3. | Schleswig-Holstein | 4.2 | Turkey | 7.0 |
| 4. | Lower Saxony | 4.0 | Austria | 4.9 |

The Mediterranean Sea has a market share of 36.2%. Western Europe follows with 13.3% and East Europe with 6.6%. The three most popular destinations in foreign countries are located at the Mediterranean Sea. They are Spain (13.5%), Italy (7.8%) and Turkey (7.0%). Austria with a market share of 4.9% is the fourth most popular destination (21) (see Table 1).

Regarding the short-term holidays, the travels in Germany have a bigger market share, 76% which are 54.7 million. 35% of these travels are city tours. 24%, 17.5 million, of the short-term holidays were the destinations in foreign countries. 9% of these were city tours. (21) The most popular destinations within Germany (see Table 2) are Bavaria (12.4%), Berlin (7.8%) and North Rhine-Westphalia (7.7%).

The most important foreign targets were Austria (3.6%), France (3.0%) and the Netherlands (2.8%). Due to the distance, the most popular foreign destinations are Germany's neighbouring countries. (21)

Table 2 The most popular destinations for short-term travels
(Source: Stiftung für Zukunftsfragen, 2015)

| No | Destinations in Germany | Destinations in Germany,% | Foreign Destinations | Foreign Destinations,% |
|----|-------------------------|---------------------------|----------------------|------------------------|
| 1. | Bavaria | 12.4 | Austria | 13.5 |
| 2. | Berlin | 7.8 | France | 3.0 |
| 3. | North Rhine-Westphalia | 7.7 | Netherlands | 2.8 |

City tours play an important role in the segment of short-term holidays. The most visited city in Germany was Berlin with the market share comprising 7.8% of all short-term holidays. Hamburg (5.5%) and Munich (3.4%) follow (see Table 3).

In foreign countries the most popular cities were London (1.5%), Paris (1.1%) and Amsterdam (0.9%). (21)

Table 3 The most popular destinations for city trips
(Source: Stiftung für Zukunftsfragen, 2015)

| No | Cities in Germany | Cities in Germany,% | Foreign cities | Foreign cities,% |
|----|-------------------|---------------------|----------------|------------------|
| 1. | Berlin | 7.8 | London | 1.5 |
| 2. | Hamburg | 5.5 | Paris | 1.1 |
| 3. | Munich | 3.4 | Amsterdam | 0.9 |

Latvia is a part of the third biggest destination group of the German tourists, of Eastern Europe, where 6.6% spent their holidays. First one might think that this figure is really low but in absolute numbers 6.6% means around 4.6 million, which is more than twice than the population of Latvia and the short-term travels are not included in this number. Accordingly, it means that the German tourism market has a high potential market for the Latvian inbound tourism. In 2013, Germans were the fifth biggest tourism group (123.4 thousand) after Russia (332.6 thousand), Lithuania (209.5 thousand), Sweden (194.7 thousand) and Estonia (146.1 thousand). (5)

Another indicator of the importance of the German outbound tourism for Latvia is “The Latvian Tourism Marketing Strategy 2010-2015”. Germany was categorized as a high priority market in this strategy. (11)

1.4. Expenditures

In 2014 expenditures on holiday travels reached their overall peak. Compared with 2013, the expenditures increased by about 5% up to EUR 67.3 billion. In addition to that there are EUR 19.8 billion of expenditures referred to the short-term holidays. (10)

Expenditures per person and per travel were EUR 958 regarding holiday travels and EUR 261 as regards to the short-term travels. The numbers of travellers who are willing to spend a big amount of money is increasing. The high price segment which means that expenditure per person is more than EUR 3,000 got doubled in the last ten years. In 2014, 2.4 million people spent more than EUR 3,000 on their holidays which constituted 3% of all holiday travellers. The high price segment has a high share in regards to all expenditures, 14%, which are EUR 9.5 billion. (10) The price level in Latvia is lower than in Germany. Especially when it comes to services like restaurants or taxis one can feel the price differences. Due to the fact that services play an important role in the

tourism industry, this price difference can be considered an advantage for Latvia. However, it should be considered that compared to Germany a lot of countries have a lower price level, also the countries that are direct competitors for the German tourists. (8)

1.5. Transportation

The plane as a kind of transport is increasing its market share. However, with 46% the car remains the most used kind of transport for travels. It is followed by the plane (39%), the bus (8%) and the train (5%). (10)

In 2014 the number of passengers at all German airports were around 208 million. This amounted to 6.1 million or 3% passengers more than in 2013. 208 million passengers can be divided into flights within Germany (45 million passengers), flights throughout Europe (125 million passengers) and in intercontinental flights (38 million passengers). (21)

The airports receiving the highest number of passengers in Germany (see Table 4) are Frankfurt/Main with around 60 million and Munich with around 40 million passengers. 28 million passengers in Berlin are divided into Tegel (20.7 million) and Schönefeld (7.3 million). (21)

The trains in Germany transported 2.7 billion passengers in 2014. (21)

3,900 bus companies existed in Germany in 2012. They transported 79 million passengers and travelled 20.8 billion passenger kilometres. The top travel destinations of passengers who took the bus as a kind of transport in 2013 in Germany were Bavaria (7.6%), Mecklenburg Western-Pomerania (4.5%) and Lower Saxony (3.6%). The most popular targets in Europe were Italy (10.9%), Austria (10.9%) and Poland (7.0%). (21)

Table 4 The biggest airports in Germany
(Source: *Forschungsgemeinschaft Urlaub und Reisen e.V., 2015*)

| No | Name of airport | Number of passengers, million |
|----|-----------------|-------------------------------|
| 1. | Frankfurt/Main | 60 |
| 2. | Munich | 40 |
| 3. | Berlin | 28 |
| | - Tegel | - 20.7 |
| | - Schönefeld | - 7.3 |

In 2014 the cruise market had a turnover of EUR 2.7 billion and 1.77 million passengers. The most popular destinations for sea cruises were the Mediterranean Sea/Black Sea, the United Kingdom/Western Europe, Northland, the Atlantic and the Canary Islands. Tours on the Danube and

Rhine rivers are the most popular river cruises. The turnover in 2014 was EUR 396 million generated by 416 thousand passengers. (21)

The most used kind of transport to go on holidays is the car. It takes around 16 hours (1200km) from Berlin to Riga by car and about 18 hours from Frankfurt/Main (1730km) and Munich (1770km). For most the people a nonstop travel by car from Germany to Latvia would be too long, however, it is possible. If you split the travel and spend some nights, for instance, in the Czech Republic, in Poland or in Lithuania the distances are quite comfortable.

The most suitable way to get from Germany to Latvia is by plane. A flight from Germany to Riga lasts for about two hours. The Riga Airport is the biggest one in the Baltic States. It offers good flight connections to various German airports. (2)

Furthermore, the ticket prices are quite low because of a large number of offers and the fact that low cost carriers like Ryanair operate flights from Riga to Germany. Ryanair offers flights from Riga to Berlin, Bremen, Cologne, Düsseldorf and Frankfurt/Hahn. (19)

The advantage of using the bus as a kind of transport is that there are more departure and arrival possibilities in Germany and in Latvia. It is possible from nearly every bigger city in Germany to travel to Latvia. However, the duration is longer than by car. A direct connection between Berlin and Riga requires around 20 hours. And the price level is the same as flying by plane. (7)

Overall travelling by plane is the best transportation for German travellers to the tourism destination - Latvia. Flights are frequently available, there are connections from many different airports in Germany to Riga, the duration of a flight is around two hours and the prices are low.

1.6. Duration of visit and type of accommodation

The average duration of the travel holidays was 12.5 days. Compared to the previous year 2013, with 12.4 days there were no noticeable changes. The average duration of holidays within Germany is shorter than border crossing holidays. Within the German border the average period is 10.3 days and in foreign countries 13.5 days. (10)

The predominant types of accommodation used are a hotel and a guest house with 46% market share. Holiday flats and houses are used by 24% of the population and are the most used types of accommodation within Germany. Only 6% of the population choose camping holidays. (10)

1.7. Expectations for 2015

The expectations for the German outbound tourism in 2015 are positive. 55% of the population already planned their holidays and only 11% are sure they will not travel in 2015.

The expenditures will be more or less the same as in 2014. 12% plan with higher expectations and 9% want to spend less than in the previous year. An important indicator for the travel plans is personal evaluation of the economic situation. The German population is optimistic about their economic situation, 18% think their economic situation will be better in 2015, 10% expect a worse situation. The biggest part of the population doesn't expect any changes in their economic situation. (10)

In the travel planning for 2015 Germany is, with 35%, the most popular destination. The most popular foreign destination for the next year will be Spain and Italy with around 13%. 6% want to spend their holidays in Eastern Europe. (1)

1.8. Holiday trends

In Germany tourism is a sector with a bright future. The demand will be more or less stable remaining at a high level. This makes planning for the travel and tourism industry possible. However, changes in the structure of the demand are expected.

Due to the demographic change, society in Germany is getting older and migration makes the society more diverse.

Compared to the last year, travel frequency remained even. Nevertheless compared with the last years, a rising trend can be traced. Accordingly the number of travellers in Germany increased from 50% in 2009 to 54% in 2012 and 57% in 2014. This trend shows that the majority of Germans are fascinated by travelling and the travel boom will continue in the future. (10)

Another noticeable trend is a more extensive use of the internet. It is not only used for planning and preparing a holiday, it is also important for booking the accommodations and transportation.

2. Main Target groups

2.1. Social Experienter

A "Social Experienter" is one of the two main target groups for inbound tourism in Latvia. This group encompasses the generation of 55-75 years. The Social Experienter travels in couples or in small groups. This kind of a traveller is a loyal one, focused on the sustainable tourism. Furthermore such "social experiencers" prefer earthbound travel. The interactive experience and the social aspects are of high significance for

the Social Experienter. This kind is characterized by a high degree of involvement before, during and after the travel as well as by openness to experience, countries and people.

The Social Experienter expects an authentic infrastructure, with the main focus on nature experiences and the feeling of the local and rustic atmosphere, striving to taste regional food, meet people and spend time with others. (4)

2.2. Conscious Discoverer

The other big target group for inbound tourism is the group of a "Conscious Discoverer". The typical conscious discoverer is fifty or more years old and travels as a couple or single without children. This kind of a traveller wants to experience culture and explore the new world, prefers round trips and modular packages, and likes to travel from destination to destination. The security and control plays an important role for the conscious discoverer. The main focus on what the one wants to experience is placed on culture and history. Comfortable accommodation in the category of four stars is expected. The travel should be perfect and professionally organized emphasising the presence of the information in the German language. (4)

Conclusions

The German outbound tourism has a high potential for the tourism industry in Latvia. Tourists from Germany comprise one of the biggest incoming segments for Latvia. Therefore the German source market is of high priority for the Latvian tourism industry.

Latvia has its strengths in the holiday types such as relaxation and recreation, nature and culture. These types should be combined with the opportunity to gain experience and be active. Furthermore, Riga has a great potential as a destination for city trips. Another type of tourism which is important for the Latvian tourism industry to satisfy the needs of the German tourists is health and medical tourism.

Due to the fact that the German society is getting older and that the two main target groups for the Latvian incoming tourism are travellers aged 50 and older and the main focus of the Latvian tourist industry should be placed on these particular segments.

An example of a good tourism product would be a round trip round Latvia by bus. The arrival could be from different German cities to Riga by plane. The round trip starts and ends in Riga and the travel encompasses different places in Latvia for around 10 days. The main focus should be placed on history, culture and nature. The travel has to be organized by a professional tour guide who gives guided tours and

information 24 hours a day in the German language. This would make the German tourists feel safe and secure. The overnight stays should be in a four-star type of accommodation.

This round trip can be combined with the visit to other Baltic States. Thus the source market would be bigger because the tourist offer would be broader and accordingly would satisfy the needs of German travellers to a higher degree. A round trip could satisfy the motivation to enjoy relaxation, nature, culture, history, experience, the possibility to be active and a city tour at the same time. Consequently, a perfect tourism product would be a combination of these factors. Latvia is not a typical tourism country as, for instance, Spain or France. Therefore it has to be admitted that Latvia should use this as an advantage as long as it offers an authentic experience with abundant nature and culture and the tourist attractions are not overcrowded by millions of tourists and it is possible to feel the real Latvian life.

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LATVIJA KĀ VĀCU CEĻOTĀJU TŪRISMA GALAMĒRĶIS

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Kopsavilkums

Latvija ir unikāla tūrisma valsts, bagāta ar saviem dabas un kultūras resursiem, tās ģeogrāfiskais stāvoklis rada lieliskas ceļošanas iespējas rietumu valstu, t.sk. vācu tūristiem. Daudzās vietās Latvijā ir saglabājusies neskarta daba, Tas, savukārt, ļāva attīstīt tādus tūrisma veidus, kā atpūtas, relaksācijas, veselības, ūdens tūrisma u.c.

Bagātīgie kultūrvēsturiskie resursi, atšķirīgās tradīcijas, multikulturālā vide, daudzveidīgā sakrālā kultūra, medicīnas un veselības tūrisms pievilina daudzus ārzemju tūristus. Vācu tūristu skaits Latvijā ar katru gadu pieaug. Šī pētījuma mērķis ir izanalizēt Latvijas tūrisma piedāvājuma iespējas, kas varētu veicināt vācu tūrisma

plūsmu Latvijas virzienā. Pētījumā tiek analizēts izejošais vācu tūrisms pēc tādiem parametriem, kā brīvdienu ceļojumi, populārākie ceļojumu galamērķi, ceļojuma motivācija, izdevumi, ceļojuma ilgums u.c. Tāpat pētījumā tiek analizētas tūrisma tendences Vācijā. Autors pieļauj, ka galvenā tūristu mērķgrupa no Vācijas ir vecumā virs 50 gadiem, kas ir ieinteresēta veselības un medicīnas tūrismā Latvijā. Izvirzītā hipotēze, ka Latvija ir pievilcīgs tūrisma galamērķis vācu tūristiem, ir apstiprinājusies.

Atslēgas vārdi: *tūrisma attīstība, tūristu uzvedība.*

THE PARADIGM OF STRATEGIC MANAGEMENT OF MULTINATIONAL CORPORATIONS ON THE BASIS OF THE BALANCED SCORECARD

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Abstract. *The paper investigates the process of strategic management and missions of a multinational corporation on the basis of the model of the balanced scorecard (BSC) formation. Due to the trends in modern management, the development of a company's strategy, and the estimation of its efficiency are carried out with increasing frequency by means of scorecards. Thus, the aim of the research is to explore the paradigm of strategic management of multinational corporations within the framework of implementation of the model of an enterprise scorecard in an ERP system. The topicality of the research is determined by the necessity to implement the worked out in detail monitoring of company's activity in a strategic focus, which will allow increasing the operationability and efficiency of administrative decisions and controlling the most essential financial and non-financial performance indices.*

In the course of work, the authors were guided by the principles of systemic and dialectical approaches to explore the problem. Thereat methods of logic and factor analysis, swot analysis, scenario planning, approaches to grouping, comparison, generalization, interconnection of the theoretical and practical aspects of the work of multinational corporations were used. They serve to deepen the theoretical and methodological aspects referred to the formation of the accounting and analytical information and implementation of the balanced scorecard model in the process of institutionalization of informative economy.

It is well-proven that optimization of a business strategy of companies contributes to realization of the information support mechanism of the accounting and analytical systems under the condition of ERP introduction- systems for the improvement of methods of accounting, control and analysis. It gives an opportunity to efficiently manage the resources of corporations, to regulate their production load, to control quality and push their products forward to foreign markets. It has been found out that, taking into account these tendencies, it is possible to construct a pay card of the system of indices according to the levels of acceptance of administrative decisions on the basis of all main business processes of a corporation.

Keywords: *corporation, balanced scorecard, system, strategy, management*

JEL code: *F41*

Introduction

One of major signs of modern society and consequences of the process of globalization is the formation of multinational corporations, which take advantages of the global economy in contrast to the traditional companies, which work, as a rule, within the framework of the national economy.

Transnational and corporate connections and their transaction charges have acquired a dominant character. It results, in its turn, into the emergence of a number of problems in management, which are also connected with the negative external effects of a non-cost character and the remoteness of the process of production from a managerial body.

The aim of the research is to develop the methodological and theoretical basis as well as the mechanism of formation and functioning of the registration-analytical control system of multinational corporations within the framework of the balanced scorecard implementation process.

In accordance with the stated aim, the following tasks are defined:

- to substantiate the peculiarities of using the BSC and its role in the improvement of the management efficiency of MNC;
- to work out the model of interrelation of financial and non-financial indices with the purpose to elaborate the development strategy of MNC;
- to discover the peculiarities of constructing the integrated accounting and analytical management system in terms of the implementation of the model of the corporate system of management indices in the ERP system.

The system method and the dialectical method serve as a theoretically methodological basis of the research. The system method is characterised by the integral consideration and the establishment of interrelation of component parts or elements of the totality. The dialectical method, in its turn, is aimed at the consideration of the phenomena of reality in their development and mutual conditionality. It takes account of the principles of the historical method, interconnection of the form and the content, correlation of the general and the particular.

The hypothesis of the research is based on the assumption that the requirement of optimization of the structure of the accounting and analytical management system results from the insufficient theoretical, methodical and practical development under the conditions of the market economy referring to such important aspects of strategic management as the construction of the model of creating the MNC development strategy, the economic diagnostics of the external and internal environment of its functioning, the methodical approaches to the

choice and substantiation of strategic alternatives. So there is a necessity to develop a complex of strategic measures and to estimate their efficiency on the basis of the balanced scorecard using the method of scenario planning.

The attainment of the target value of the financial safety margin of MNC is achieved through the certain level of productivity, which will provide the permanent cost cut-out and reduce the value of a break-even point. The concept of the balanced scorecard, offered by the authors for implementation, presupposes the construction of certain multi-aspect connections among the key performance indicators and operative, financial and non-financial indicators, strategic and operational management levels, previous and future results, and also between the internal and external aspects of the company's activity.

The realization of the determined prospects (investigated by the authors of the research) is possible under the following conditions:

- international positioning of the assets of multinational companies that ensures the decline of financial risks and tax obligations;
- structuring of the informative support of the accounting and analytical system which is oriented to the balanced indices and directed to the acceptance of high-quality administrative decisions;
- tax terms of the activity of multinational corporations which determine the incentives of the transfrontal expansion of production and sale;
- possibilities of using the transfer prices, at which the transactions between the branches of multinational corporations in different countries are implemented.

The necessity to avoid protectionism barriers by MNC modifies the costs, or more precisely, the price appears. Beginning from the last mid-century the so-called transfer prices have emerged. Nevertheless their application reached heights in MNC, as the internal character of formation and use of these prices in fact is international and gives reason to suspect the corporations of the attempt to avoid taxation and other payments to the national budget.

The use of modern methodologies and technologies and implementation of EISS make it possible for the company to develop global strategic approaches, as well as to inculcate the innovative methods of management.

As a result, a crucial task for strategic management of multinational corporations is the improvement of the indicative system of key indicators with the exploitation of the balanced scorecard model.

The process of management of multinational corporations within the framework of the realization of the corporate scorecard model

MNCs diversify the forms of penetration into the international markets, thereby asserting and extending the transnational economy.

In the opinion of Daniel H. Wagner, “the analysis of management decisions assumes the division of this or that difficult problem into the subproblems which are easier to examine both logically and intuitively. The results of the careful research of each of the subproblems are properly synthesized, which, on the whole, allows the deeper comprehension of the initial problem” (Wagner et al., 1999).

When constructing the strategically oriented MNC in a methodological way, the most difficult task is to tie up the qualitatively formed strategy with the indicators of its measuring which are, as a rule, expressed numerically.

MNC have a number of indisputable advantages over the national companies. The advantages of a corporation, which are related to transnationalism, are at the same time the reasons for the active development of MNC. The foremost of them are:

1. The possibility to increase the efficiency and competitiveness at the expense of the access to the resources of the foreign states which are cheaper than in the country of basing, as well as at the expense of the exploitation of peculiarities of tax policies, difference in the rates of currencies, difference in interest rates, liberal tariff barriers, etc.
2. The ability to continue the life cycle of technologies and products, and to use the economized money for the development of new technologies and products, to retain the control of the use of scientific and technical, managerial and marketing potential and other available “assets”.
3. The closeness to the consumers of the products of a foreign corporation branch and the possibility to receive the information about the market prospects and competitive opportunities of firms of a country-recipient (Kulishov et al., 2006).

There is no agreement among the scientists regarding the question of the elaboration of the integrated system of performance indices which could be used as a basis for the determination and management of a company’s strategy.

In relation to the integrated planning and control, German scientist D. Hahn notes in his monograph that “in the ideal case, planned control computation must be interconnected with all meaningful, for an enterprise, qualitative and quantitative nonmonetary indices. The

information value of the planned control indices will grow if to work out a single list of major internal and external factors which influence the result and liquidity” (Hahn et al., 2001).

The system of indices, which is usually used by foreign enterprises, as a rule, is formed for a definite enterprise and allows educing not only its strategic potential but also the weakest points. Bramsemann R. (Bramsemann, 1993) divides all indices and systems of indices of enterprise activity into logically deductive and empirically inductive. Concrete indices of a top level are the basis of logically deductive systems. These concrete indices in their certain sequence are decomposed into the indices of a lower level, which have a logical connection with a basic index. Empirically inductive systems are created by means of a statistical selection of the informatively most meaningful indices. Logically deductive systems of indices are considered to be universal and are used for all aims of planning, control and management of an enterprise and its structural subdivisions (Table 1) (Dedov, 2008).

The main disadvantages of the indices, which are used in the MNC management practice are the following:

- the indices are shown in cost value;
- the use of correlations of cost indices does not allow educing the real source of efficiency;
- the integrated methodology of calculation of homogeneous indices is absent;
- the indices do not take into account the difference of the accounting systems and legislative bases of various countries, also integrated norms and requirements in relation to the best indices are absent;
- the indices of a nonmonetary character are not supposed in the system of indices.

Thus, systems of management indices are, as a rule:

- developed for a definite company and allow educing its potential and certain weak spots;
- based on strategic aims of a company and provide the possibility of planning, control and regulation of company's operations with the orientation towards a result and liquidity.

The construction of the control system of MNC includes the introduction of four subsystems:

- the balanced scorecard;
- the system of monitoring and analysis – management cockpit;
- the system of business-planning and budgeting;
- the system of business-consolidation.

Table 1 Systems of indices which are used in practice of foreign enterprises
(Source: Dedov, 2008)

| <i>Types of the systems of indices</i> | <i>Examples of systems</i> | <i>Aims and directions of application</i> | <i>Sources of information for account</i> |
|--|--|---|---|
| Logically deductive | <ul style="list-style-type: none"> - Du Pount (ROI) - Pyramid Structure of Ration (the UK) - ZVEI (Germany) - Others | <ul style="list-style-type: none"> - analysis, planning and control - comparison with other companies - analysis of inner dynamics with the detection of growth potential - consumers of information – higher management | <ul style="list-style-type: none"> - balance - the report on gains and losses - data of internal account and statistics - statistics at other companies |
| Empirically inductive | <ul style="list-style-type: none"> - Beaver (the USA) - Weibel (Switzerland) - Camel - Others | <ul style="list-style-type: none"> - comparison of the selected indices of the enterprise under analysis with the "standard" - comparison with other companies - analysis of inner dynamics with the detection of growth potential - consumers of information – higher management | <ul style="list-style-type: none"> - statistics at other companies - balance - the report on gains and losses |

One of the modern methods of strategic management is a construction of the balanced system of indices – Balanced Scorecard (BSC). This conception is worked out by Robert Kaplan and David Norton (Kaplan et al., 1996), the founders of the international consulting company Balanced Scorecard Collaborative. BSC is the instrument of strategic and operative management, which allows tying strategic aims of an enterprise with business processes and activity of employees at each management level and estimate the results of their activity from the point of view of realization of strategy by means of key indices of efficiency.

In the paper “Problems of the development of economic analysis of the enterprise activity” M.G. Chumachenko (Chumachenko, 2006) expresses the opinion in relation to the expediency of the use of Balanced

Scorecard and emphasizes the necessity to develop the analysis system in the conditions of the Balanced Scorecard.

Analysis of the condition and increase in the efficiency of the strategy implementation in MNC is carried out through the use of the methods of developing Balanced Scorecard with the due regard to the branch peculiarities. The achievement of this aim presupposes the solution of the following tasks:

- to develop a corporate strategic map;
- to develop a corporate scorecard;
- to develop a schedule and a plan of strategic initiatives and a strategic budget;
- to introduce BSC at a corporate level.

While considering the question referred to the inclusion of the management level into the card, the corporate concept is formed, at the same time the indices are examined for the compliance with each of the following criteria. The criteria are given in the descending order of priority:

- an index reflects a key aspect of the economic activity;
- an index plays a substantial role in the acceptance of administrative decisions;
- an index is “guided”, i.e. responsible persons can largely influence the value of the index within the ranks of their official duties;
- an index has potential stable cause-consequence connection with other indices;
- an index is simple in calculation and collection of primary accounting information;
- an index has an economic (statistical) meaning in the process of consolidation (aggregation) at higher levels of responsibility.

Within the framework of the procedure of decision-making which concerns the incorporation of a definite index in the card of a responsible person, it is advisable to focus as much as possible on the use of clear, generally accepted indices.

The elaboration of an effective managerial system is quite a difficult process for any company. Proprietors (shareholders), whose aim is to increase own profits, seek to promote the efficiency and controllability of the activity of own assets. One of the methods of business estimation is establishment and control of the implementation of the benchmarks for the work of all business processes and structural subdivisions of a corporation.

In the other works of Robert Kaplan and David Norton (Kaplan et al., 2004) related to the BSC it is assumed that the process of functioning of corporation is examined from the point of view of six interrelated and balanced aspects according to which the data are collected and afterwards analysed, namely:

- finance – the use of assets, optimization of floating capital;
- clients – increase in a consumer satisfaction, choice of clients who generate basic income;
- an environment / a concord – support of local business, establishing connections with future employees, leadership in a concord;
- internal business processes – timely supply, optimization of technologies, effective mutual relations with basic related parties;
- satisfaction of employees – positive corporate culture, maintenance of key employees, recognition of staff merits;
- training and development of staff – delegation of powers to the employees, enhancing their qualification and ability to adaptation.

At the same time, the order of delegation of disbursement powers is carried out according to the hierarchical principle. It actually means that the hierarchy of financial indices is formed in a vertical plane. A manager of a higher level deposes a part of his powers to a subordinate, and so it continues until the process of delegation is stopped at one of the levels.

Combining financial and operating principles of business planning, we get two non-coincident projections:

- horizontal projection – planning at the level of business processes and indices of productivity (Management By Objective);
- vertical projection – planning at the level of post hierarchy and indices of profitability (Balanced Score Card).

Vertical projection is, as a rule, very short and at most takes one or two levels and does not assist the complete implementation of the Balanced Scorecard.

The structure of indices needs reorganization due to the insufficient organizational and technical development of the management system and peculiarities of mutual relations of substructures at the market.

At the same time A. Dedov (Dedov, 2008) believes that “the most effective model can be the one which presupposes analysis in five key directions, namely:

- indices of the financial state;
- technology;

- organization of management processes;
- client-market;
- innovative activity and improvement of personnel's knowledge".

The introduced model of the corporate system of management indices deserves attention and can be taken into account while forming the process-oriented organizational structure of MNC (Fig.1).

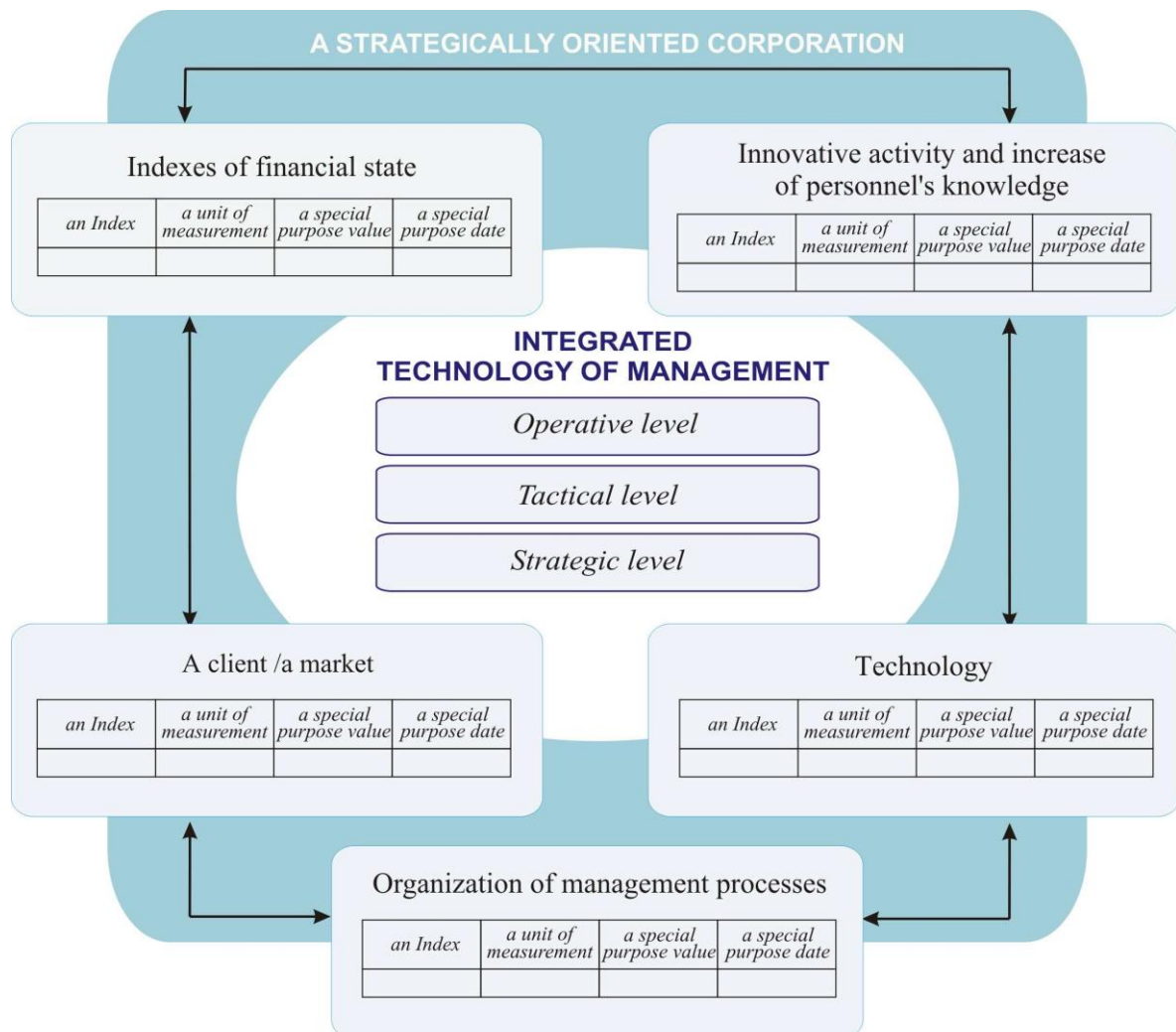


Fig.1 Corporate system of indices of MNC management
(Source: Gushko, 2010)

At a strategic level of management of MNC, the model of the corporate system of management indices in the systems of ERP (Enterprise Resource Planning) class needs realization. This model contains the tree of aims and indices of an enterprise, with the attachment to the hierarchy of the processes and with the statement of measures which are necessary in order to achieve the desired ultimate goal by subdivisions and employees.

The tactical and operative level is realized through the management of the processes of an enterprise, which are focused on the realization of the mission and vision by means of achieving the set goals and implementing technological procedures in accordance with the set regulations and dedicated resources.

The integration of management levels, informative and business-technologies into the integrated accounting and analytical management system provides the possibility to manage an organization on a permanent, regulated basis, due to the direct improvement of its activity and rise of customer satisfaction in contexts of the application of the ERP-systems (Fig. 2).

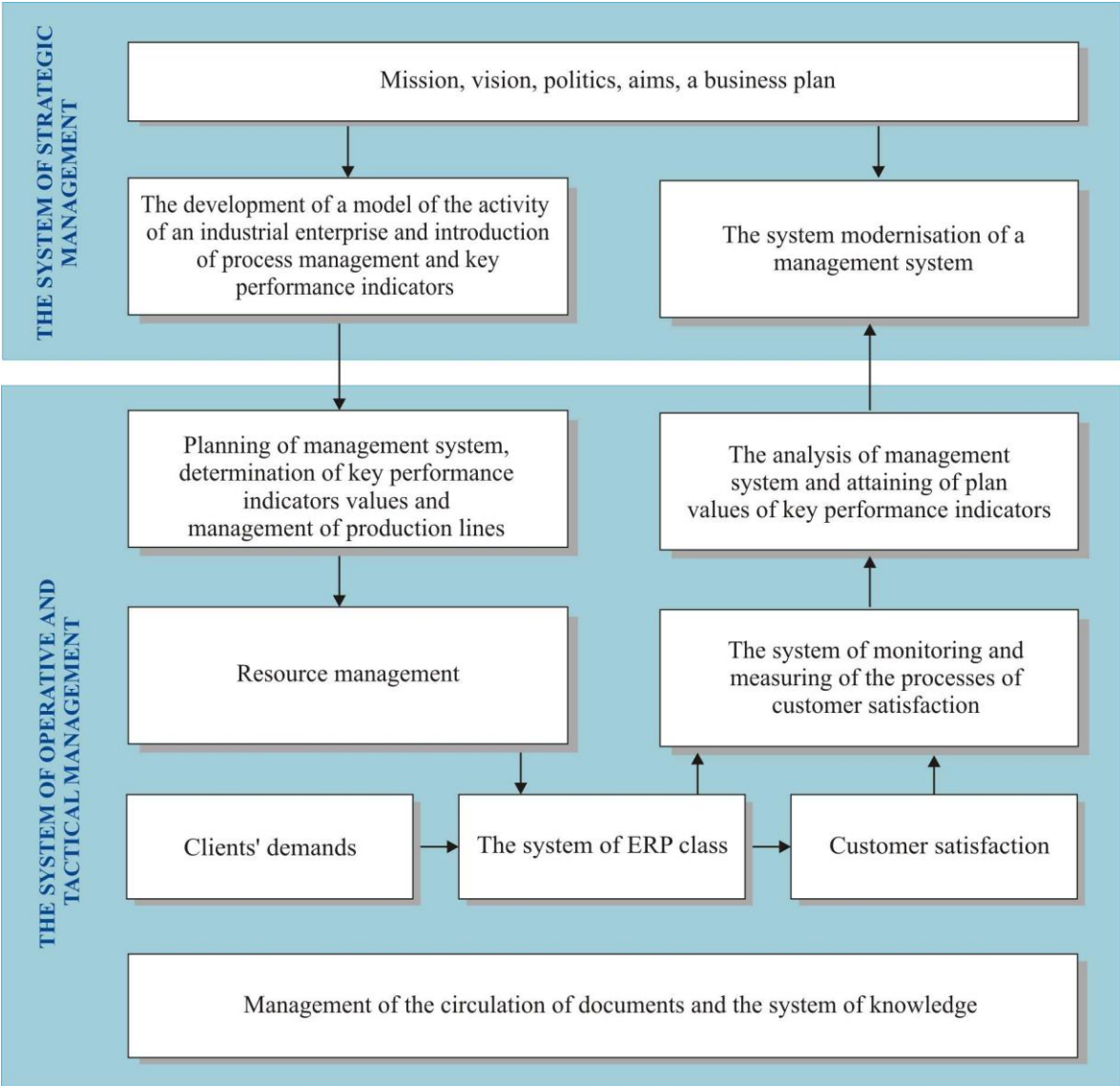


Fig.2 The construction of the integrated accounting and analytical management system in terms of the realization of the model of the corporate system of management indices in the ERP-system
 (Source: Gushko, 2010)

The possibilities of adaptation of MNC to the changes in the economy at the expense of branch factors of development, to a great extent determine the effectiveness of public policy. It is impossible to examine the prospects of the development only from the point of view of economic indicators of a branch. Attraction of the potential to solving current problems of the economy is impossible without the active involvement of a state.

The process-oriented approach assists the formation of the registration-administrative systems of corporation. Due to this, a company's management team is able to delegate part of plenary powers regarding the acceptance of administrative decisions to the level of definite performers of the process.

So in Ukraine there are trends of creating vertically-integrated holding companies. In order to increase the efficiency of functioning of vertically-integrated structures, it is necessary to use the process-based approach while constructing the model of the corporate system of indices, as the ideas put into the concepts of vertical integration are pre-conditions for its application.

Thus, it will allow one to manage the resources of MNC more efficiently, to regulate their production load, to control quality and push them forward to the foreign markets. It is extremely important to note the necessity of taking into account the technological indices in combination with the economic ones. It is even timelier under the conditions of using the informative systems of ERP class. As a result, taking into account the introduced tendencies, it is expedient to construct a pay card of the system of indices according to the levels of acceptance of administrative decisions on the basis of all main business processes.

The introduced solution assumes reorganization of the organizationally-administrative structure in connection with the necessity to select and manage the group of basic and workflow-enabled business processes.

The distribution of plenary powers and responsibility among structural subdivisions must be reflected in the model of the corporate system of management indices. This model is used while planning and estimating the activity of business-units. The business-units must be responsible only for those indices, which they can influence.

In this case, a business process is considered as actions (functions) which are consistently repeated, carried out by the employees of structural subdivisions during a certain period of time. These employees work at different levels of an organizational structure.

Conclusions and suggestions

The corporate system of indices shall allow one to include strategic aims, financial plans, and control measures after their implementation and the evaluation of activity of business units into the integrated system.

Organizationally-methodical perfection of the information support functions, through the wide use of EISS, namely the integrated systems of collecting, processing and analysing the administrative data in the real-time is rather important to implement the model of the corporate system of management indices.

Within the framework of such systems we suggest practicing rational charts of circulation of documents among the divisions of an industrial holding, which are based on the accepted standards, formats and balanced system of indices. In the organizational terms, the integrated information space presupposes to form a quite powerful administrative subdivision, at the level of division, which is able to integrate numerous streams of information at all levels of management.

The analysis of the questions under consideration made it possible to draw the conclusion that the strategy of MNC can be defined as a totality of financial and non-financial objectives, which in short-, medium- and long-term prospects enable the company to come as close to its goal as possible.

It is proven that the development of the complex estimation of the efficiency of company's work and the balanced scorecard of its activity is conditioned by the evolution of the development of management systems. Together with the presence of the concepts of measuring the achievements it is important to examine a great deal of financial performance of an organization in the interrelation to the non-financial aspects of its activity. It results into a substantial increase in the volume of information and the necessity for its analytical treatment.

The conceptual elements of functioning of the accounting and analytical system of MNC were sorted out. The system is oriented to the balanced indices and assists forming of an informative horizon and the use of qualitative analytical potential.

All business processes which take place in an enterprise are interrelated within the framework of a single process of business management with the aim to achieve the effective process of management, planning, control and realization of strategic aims of an enterprise. The structure of business processes depends on the definite types of activity, which is carried out by an enterprise. However every enterprise has a single set of business processes, oriented to the process of regeneration of material and financial flows, i.e. rotation of resources

happens in an enterprise, namely:

- acquisition of necessary resources;
- production;
- realization of the final goods;
- investment;
- human resources management;
- financial management;
- management of information technologies and systems.

In the process of constructing a scorecard on the basis of business processes, it's necessary to define a set of performance ratio (and set the target values of indices) for every function of the business process, information sources for their calculation, including the format of presenting the data, algorithms and methodologies of their calculation on the basis of data of the administrative accounting, recommendations concerning the automation of calculation of indices.

In the authors' opinion, it will give an opportunity to manage the resources of MNC efficiently, regulate their production load, control the quality and move their products forward to foreign markets. In accordance with the model, the analysis should be carried out in five key directions: indicators of financial condition; technology; organization of management processes; client-market; innovative activity and improvement of personnel's knowledge. Taking into account these directions it's reasonable to make the pay scorecard according to the levels of acceptance of administrative decisions on the basis of basic business processes of a company.

Modern trends of corporate management and organization of the activity of top-management of MNC enable to take into account the directions of the perfection of corporate management under the conditions of globalization. The construction of an effective model of MNC management is provided by a liquid fund market and a favourable global investment environment.

Thus, the strategic management of MNC is directed to the achievement of long-term objectives of an organization through the adaptation to the changes of an environment. The tasks are difficult to analyse and require the account of plenty of factors, interests, threats and consequences. At the strategic level of management, there is a high degree of ambiguity in relation to the evaluation of the environment, weak formalization of management methods, variety of criteria to evaluate decision making.

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DAUDZNACIONĀLO KORPORĀCIJU STRATĒGISKĀS PĀRVALDĪBAS PARADIGMA, PAMATOJOTIES UZ LĪDZSVAROTU VADĪBAS KARTI

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Kopsavilkums

Rūpniecības uzņēmumu efektīva pārvaldība un informatīva sagatavošanās optimāli zinātniski pamatotu administratīvo lēmumu pieņemšanai ir vienīgais efektīvas grāmatvedības un analītiskas pārvaldības sistēmas process un priekšnosacījums. Virzot šo sistēmu, lai apmierinātu augošas informācijas prasības, grāmatvedības, analītiskās un kontroles procedūras būtu jāizmanto kombinācijā.

Autori norāda, ka mūsdienu analīzes koncepcija gūst īpašu vērtību, pētot daudznacionālo korporāciju pārvaldības jautājumu. Galveno rādītāju noteikšana

saskaņā ar trīs līmeņu pārvaldību (taktisko, operatīvo, stratēģisko) ir vērsta uz pozitīvu uzņēmuma attīstības nodrošināšanu. Pamatojoties uz zinātnisko izziņu metodoloģiju, dotā jautājuma aktualitāte padara iespējamu racionālu pamatojumu par pašreizējo un perspektīvo uzņēmuma darbības pārvaldības projekta realizācijas procesu.

Izvēloties instrumentus, kas, saskaņā ar optimāli pieejamo resursu ieviešanas nosacījumu, padara iespējamu, pētījumā atspoguļoto, daudznacionālo korporāciju stratēģijas realizāciju. Uzņēmuma pārvaldības metožu analīze tika veikta ar mērķi palielināt tās efektivitāti.

Galvenajos rādītājos, kas noteikti atbilstoši uzņēmuma attīstības stratēģijas pakāpēm, indikatīvā sistēma ir ļoti svarīga biznesa efektivitātes pārvaldībā. Neviens no esošajiem komponentiem (informācijas panelis, budžeta vai plānošanas procesa kārtība, finanšu konsolidācija, finanšu pārskati, biznesa analīze, portāli ar iekšējiem galvenajiem darbības rādītājiem, stratēģiskās kartes, programmatūra prognozēšanai, modelēšanas instrumenti plānošanai), nevar kalpot par atsevišķu biznesa efektivitātes pārvaldības sistēmu.

Ieviestā korporatīvā pārvaldības indeksu sistēma jāņem vērā, veidojot uz procesu orientētu organizatorisko struktūru. Tā ļaus starptautiskām korporācijām paaugstināt resursu pārvaldības darbības spēju, regulēt to ražošanas slodzi, kontrolēt kvalitāti un virzīt tās uz priekšu, uz ārvalstu tirgiem.

Svarīgākais ir savienot tehnoloģiskus indeksus ar ekonomiskiem, pienācīgi ievērojot URP klases sistēmu izmantošanas iespējas. Ir ieteicams lietot samaksas vadības karti atbilstoši administratīvo lēmumu pieņemšanas līmeņiem, pamatojoties uz galvenajiem biznesa procesiem uzņēmumā.

Rādītāju paneli un līdzsvarota vadības kartes sistēma veiktspēju pārvaldībā ļauj nekavējoties un nozīmīgā veidā sniegt kritiski svarīgu informāciju. Tomēr līdzsvarotās vadības kartes realizācijas process pilnā apjomā joprojām ir sarežģīts. Ir svarīgi mainīt indeksu struktūru šajā sakarā, ņemot vērā pārvaldības sistēmas nepietiekamo organizatoriski-tehnisko attīstību un savstarpējo uzņēmumu attiecību īpatnības tirgū.

Atslēgas vārdi: korporācija, vadības karte, sistēma, stratēģija, pārvaldība.

THE REPUBLIC OF LATVIA WITHIN THE DIMENSIONAL FRAMEWORK OF INTERNATIONAL LEGAL SUBJECT

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Abstract. *In operations of public administration, and especially law enforcement agencies, a particular understanding of the definition of national territory is necessary, especially having in mind the various sovereignty differentiation of national territory into sea areas and airspace, resulting from the modern international and European Union law and which would not be contrary to Article 3 of the Constitution generally determining the meaning of the Latvian State territory. Sometimes the national territory is understood as land or water surface. But setting national borders and border treaties and the national regulatory framework of the state border concept, states include the concept of national borders within their jurisdiction spread in space – technical capabilities of land and deep-water in depth and in airspace to the space limit. The main purpose of the research was to analyse the Latvian national framework of legal subject or international and national regulatory frameworks of territory and to offer a clearer and more comprehensive definition of the national territory. The author developed the dimensional framework definition of national territory in the result of research that would be necessary in the national regulatory framework in the context of national security and not in conflict with the international regulatory framework.*

Keywords: *national territory, airspace, the territorial sea, subsoil, jurisdiction*
JEL code: *K33 International Law, Staats Law.*

Introduction

The topicality of the research relates to the concept of national territory, its more exact and clearer definition in the national regulatory framework. The purpose of the paper is to explore the contemporary international regulatory frameworks and judicial practices for a deeper understanding of the concept of the national territory, thereby initiating the discussion about harmonization of the concept in national regulatory frameworks.

The purpose of the research is to analyse the Latvian national framework of legal subject or international and national regulatory frameworks of territory and to offer a clearer and more comprehensive definition of the national territory. To achieve the aim, the following research tasks are set: 1) to explore the national regulatory framework, which refers to the terminology on the national territory; 2) to explore issues of normative regulation of the Latvian national sea areas relating

to various differentiation of the sovereignty in various jurisdictions of marine areas; 3) to explore the Latvian subsoil regulatory framework and its harmonization with international regulatory frameworks; 4) to explore the problems of determination of the Latvian airspace upper limit from the standpoint of international law; 5) to explore the court practice and legal scholars' views on determination of the Latvian border territory; 6) to develop and offer a specific definition of the territory of Latvia as a definition of existential space.

The following scientific research methods are used in the research: a) systematic method; b) grammar method; c) historical method; d) analytical method; f) teleological method.

Research hypothesis: if Latvia as the national territory of international legal subject is specifically defined in the national regulatory framework, it will contribute to the sovereignty of the state and safety in international relations. The research is based on the following sources: books by Bojars, Prescott and others, laws and regulations such as the Convention on International Civil Aviation, the Law On the State Border of the Republic of Latvia and etc., and legal practice materials.

The spatial nature of the national territory

The national territory is a spatial part of the globe, which is located in a specific national sovereignty and enclosed by its land, sea and air borders. The national territory as a spatial framework includes land, inland and territorial waters, the subsoil below and the airspace above them (Bojars, 2004, p.296). Prof. J.Bojars gives the specific clarifications of included elements for the territory of the State:

- 1) the land territory includes all state land portions covered by its boundaries (Bojars, 2004, p.307);
- 2) the sea area consists of its internal (domestic) and territorial waters covered by borders (Bojars, 2004, p.304) or the territorial sea.

Important and noteworthy is Prof. J.Bojars' accentuation of the national territory spatial boundaries and their attribution to the form of segment, because the geometric meaning of the phrase "corresponding to this line vertical surface" in the definition of the concept of national borders as well as in relevant definitions of other countries is incomplete due to the fact that the earth is of spherical shape (although it is slightly stretched in the direction of the equator as a result of the centrifugal force) and the vertical surface of the overlapping state border lines should not be absolutely vertical. In this case, it should be assumed that the country renounces its own significant part of the airspace, but

perhaps unreasonably another neighbouring state subsoil space is added. Also, the word 'surface' in the definition of the state border is not accurate, because from the geometric terminology point of view it's a plane or nozzle (Cepurniece, Gutmanis, Lukstins etc., 1969, p.585).

Emphasis on national territorial space is also present in the works by other legal scholars, for example, in Prof. R.Cipeliuss' work: "the national territory is not two- but three-dimensional, therefore, it is not the area, but the body located in the space above and below the ground surface layer". Although Prof. R.Cipeliuss did not include the sea (water) areas in this explanation, but hereinafter he reasonably attributed the national territory to the sea as well: "expanding coastal waters to 12 nautical miles, shoreline borders are under the administration of the existing weapons and technical management of marine area borders today. Unlimited territorial sovereignty is up to the baseline, that is, up to the water level line at the low tide line during peak periods" (Cipeliuss, 1998, p.68). In the 19th century's Russian scientists' legal works, the national territory was explained in a spatial meaning, including the land, as well as the sea, i.e. space, which is subject to the National Law (Капустин, 1873, p. 202).

The term 'national territory' is often referred to in international, European Union and national regulatory frameworks, including the National Armed Forces Law (National Armed Forces Law, 1999, art. 6, 6¹), the Law On the State Border of the Republic of Latvia (On the State Border of the Republic of Latvia, 2009, art.1), the Law On Aviation, etc., but none of the laws and regulations, starting with the Constitution of the Republic of Latvia, have a comprehensive and specific definition of the Latvian territory as a state of existence and jurisdiction space.

Latvian sea areas

The territorial sea of the Republic of Latvia is: a) the waters of the Baltic Sea and of the Gulf of Riga of the Baltic Sea in width of 12 nautical miles (hereinafter – nm), counting from the base line (Law on the State Border of the Republic of Latvia, 2009, art.1, part 10), if it has not been otherwise specified by international agreements; b) the waters of the Gulf of Riga of the Baltic Sea from the base line to the state border determined in accordance with the agreement of the Republic of Latvia and of the Republic of Estonia of 12 July 1996 on maritime demarcation in the Gulf of Riga, the Irbe Strait and the Baltic Sea (Law on the State Border of the Republic of Latvia, 2009, art. 1, part 9).

Such a national regulatory framework regarding sea areas in its entirety conforms to the requirements and concepts of the UN

Convention on the Law of the Sea (hereinafter - UNCLOS) (United Nations Convention on the Law of the Sea, 1982, art.2).

In the Law on Aviation, the territory of the Republic of Latvia is defined as the land territory of the Republic of Latvia, its internal and territorial waters of the Baltic Sea and airspace (Law On Aviation, 1994, legal terms). In this case, the phrase "the territorial waters of the Baltic Sea" should be defined as "territorial sea" in accordance with UNCLOS terminology. However, in the Treaty on Open Skies the territory of a State Party is considered the land, including islands, as well as internal and territorial waters, which fall within the sovereign territory of the State Party (Treaty on Open Skies, 1992, art. 2).

Therefore, with regard to both national sovereignty and national borders in the context of the concept, it is important to understand the concept of the national territory and its various differentiation of sovereignty, for example, in relation to marine areas.

The provision is not precise in the Marine Environment Protection and Management Law, article 1, paragraph 3: "marine waters of Latvia, as well as natural marine resources, the seabed and the subsoil (hereinafter – the sea) – waters of the Baltic Sea, natural marine resources, the seabed and subsoil in the territory which, in accordance with the national and international legislation, is under the jurisdiction of Latvia, namely, internal marine waters, territorial sea and the exclusive economic zone of Latvia" (hereinafter – EEZ). The phrase "internal marine waters" corresponds neither to the UNCLOS nor to the regulatory framework of Latvia (Law on the State Border of the Republic of Latvia (2009)). In addition, the state jurisdiction regarding the EEZ is limited, and it is specifically provided in Article 56, paragraph 1 of the UNCLOS, which stipulates that the coastal State of the EEZ has sovereign rights only in exploring and exploiting, preserving and managing the natural resources, whether living or non-living, of the waters that cover the bottom of the sea, the seabed and its subsoil.

The Latvian national sovereignty and jurisdictional issues in the Baltic Sea are a topical issue of the contiguous zone. The contiguous zone is regulated as a separate legal institution in article 33 of the UNCLOS. It cannot be extended to the territory that lies further than 24 nm from the baseline from which a breadth of the territorial sea is measured. However, the contiguous zone of Latvia is referred to and is fixed neither in the Law on the State Border nor in the Marine Environment Protection and Management Law, or elsewhere. Consequently, it is also not intended for the competence of the public administrations in implementation of the Latvian jurisdiction (thus sovereignty) in the contiguous zone. Waters under the jurisdiction of Latvia include the internal waters and territorial

sea not only within its territory but also in the Latvian EEZ in the Baltic Sea, which is not the Latvian territory, but in which Latvia has prior rights to use natural resources. EEZ, in accordance with Article 57 of the UNCLOS is an area located outside the territorial sea and adjacent to it, and its width should not exceed 200 nm from the baselines from which the width of the territorial sea is measured. In the EEZ, in accordance with Article 55 of the UNCLOS, it has the right to review the jurisdiction regarding artificial islands and forming the freedom of other structures, exploration by marine science and marine environmental protection. However, other countries of the EEZ has the right to use the freedom of navigation and overflight, submarine cables and freedom to lay pipelines and the rights of use of the sea related to those freedoms. However, other countries need to take into consideration the rights of the coastal State and comply with the certain laws and regulations of the coastal State, such as catch limits and marine environmental protection requirements (Agreement for the implementation of the provisions of the United Nations Convention on the Law of the Sea of 10 December 1982 relating to the Conservation and Management of Straddling Fish Stocks and Highly Migratory Fish Stocks, 1995).

Subterranean depths of Latvia

Subterranean depths, located below the State land and water areas, are under its jurisdiction as deep in the respective segment as this right can be technically implemented (Bojars, 2004, p.304). The concept of subterranean depths is defined in legal provisions of Latvia, provided that they are a part of the Earth's crust (the Earth's crust – the outer, solid part of the Earth the thickness of which in Latvia is 40-64 km), which is located under the soil, inland and sea water up to the depths in which the use thereof is economically and technically possible (Law On Subterranean Depths, 1996, art. 1, paragraphs 20, 23). The Law on Subterranean Depths defines the rights of the State in the subterranean depths and in the EEZ, and the use of them may be of especial significance in the national economy, protection and in other fields (Law On Subterranean Depths, 1996, art.1, paragraph 19). However, the phrase of the Law On Subterranean Depths 'inland and sea waters' is not exact because in relation to the word 'inland' the legislature apparently refers to internal waters, as defined in the Law on the State Border of the Republic of Latvia (Law on the State Border of the Republic of Latvia, 2009, art.1) and the UNCLOS (United Nations Convention on the Law of the Sea, 1982, art.76, paragraph 5). Regarding national sovereignty in the subterranean depths, an important role is played by the concept of the continental shelf. Certain coastal exclusive rights of the State to explore

the continental shelf and the exploitation of natural resources are defined in the UNCLOS, moreover, it determines that other countries have no right to explore the continental shelf or exploit its natural resources without certainly expressed approval of the coast State if the coastal State does not do it (Agreement for the Implementation of the Provisions of the United Nations Convention on the Law of the Sea of 10 December 1982 relating to the Conservation and Management of Straddling Fish Stocks and Highly Migratory Fish Stocks, 1982, art. 76–78). In accordance with the UNCLOS, a continental shelf can be no more than 350 nm from the baseline from which the width of the territorial sea is measured. The rules governing the rights of countries in the continental shelf do not affect the legal status on waters and airspace above those waters. The UNCLOS forbids the coastal State to disturb the freedom of navigation of other countries when it carries the rights over the continental shelf. The continental shelf of Latvia is the seabed surface and the subsoil of underwater areas, which is the Latvian land area of natural sequel, located just behind the territorial sea boundaries of Latvia and extends to specified limits as stipulated in article 3, paragraph 3 of the Marine Environmental Protection and Management Law.

The airspace borders of Latvia

In accordance with the Convention on International Civil Aviation (ICAO) convention, the national air territory includes the air space above the State and territorial waters located within its sovereign or suzerainty (ICAO, 1944, art.2), not determining the upper border of this space. At the end of the 20th century and at the beginning of the 21st century, the discussion continued and as a result of scientific research, the Space and Earth's atmospheric boundary was declared 100 km above sea level, which was accepted by the International Aeronautical Federation (*Fédération Aéronautique Internationale*) and sometimes called the Kármán line (The International Air Sports Federation, 1995).

European Union Regulation No 923/2012 does not determine the airspace upper boundaries of the Member States, but the term bead roll defines that the territory of a Member State is overland territories and the adjacent territorial waters, which is in sovereign power or suzerainty, in mandate or protection (EU Regulation Nr. 923/2012, 2012, art.2). EU laws and regulations do not define the airspace upper borders of the Member States, but the regulation is a positive example of mutual harmonization of EU and international law.

The aspect of territorial jurisdiction of Latvia

The State as a significant recognition criterion of international legal entity is the ability to ensure efficient control of its territory. As the International Court of Arbitration ascertained in the "Island of Palmas' case (The Island of Palmas Case, 1928), likewise, in the Greenland conflict between Denmark and Norway, in Denmark and Sweden the dispute over the continental shelf, in Finland and Sweden the dispute about Aland Islands (Лунден, 2011, p. 183-190) etc., the principle of territoriality serves both to limit state power in the space and to divide the competence between members of international cooperation (Bojars, 2004, p.305).

National territory is inviolable, resulting from customary international law of many centuries, gaining a written confirmation in Section IV of the Final Act of the Conference on Security and Cooperation in Europe, 1975, determining that the participating States will respect the territorial integrity of each of the participating States and they will refrain from any action inconsistent with the purposes and principles of the Charter of the United Nations against the territorial integrity, political independence or the unity of any participating State, and in particular from any such action constituting a threat or use of force (Grigelonis, 2000, p.109). However, the state power is not exclusive even in its own territory, for example, the United States of America (Bojars, 2010, pp.71-80) is practising its jurisdiction over foreign commercial enterprises if, in the result of their activities, have been victims of the receiving country, whether the natural or legal persons.

Prof. J.Bojars points out 7 main ways to acquire a national territory: opening of the territory, occupation, growth, voluntary assignment, peace treaties, forced assignment or taking by force (Bojars, 2004, p.296), and we could agree with it, with the exception of the peace treaties, which are in fact the legal act of a territory and thus delimitation, and it can be a legally executed result of any of the above-mentioned forms of taking the territory. In accordance with the self-determination of peoples, rights should be a referable use of the territory since *time immemorial – antiquitas, vetustas cujus contraria memoria non existit* rule, opening of the new territory, a plebiscite, voluntary assignment, territory purchase, renting, giving as a gift and partly the growth path, but in external influence processes are referable – seizure of the territory or its occupation as a result of the use of military force, limitation on benefits and the acquisition of colonies. In conclusion, the determination of the territory, and therefore also the national border, takes place in mutual interaction between peoples' self-determination rights, international relations and political processes, which is the most outstanding

manifestation of the international legal dispute that fully cover also the Latvian - Russian border (The Border Treaty: Judgment. Material. Comments. 2009, pp.243-248).

In the establishing part of the Constitutional Court judgment, it is shown that the Cabinet of Ministers, referring to the principle of inviolability of borders, has not agreed with the comprehension of Russia about the content of this principle. The Constitutional Court pointed out that Article 3 of the Constitution of the Republic of Latvia has been taken to prevent (difficulty) a possible separation of Latgale from Latvia. Article 3 of the Constitution does not include a constitutional prohibition for Latvia to change the state border, because it is impossible to actually ensure the inviolability of borders in accordance with international law. Also, the Latvian State Border of Latvia has been changed after the entry into force of the Constitution both in the interwar period and after the restoration of independence. Therefore, the border treaty with Russia is not contrary to Article 3 of the Constitution of the Republic of Latvia, since it does not create an interstate border, which amends the defined borders as stipulated in Article 3 of the Constitution in 1922, but records the Latvian-Russian border in accordance with the Treaty at the moment of *de jure* existing territories of both countries in the written international treaty form (Constitutional Court in the Border Treaty Case Nov 29, 2007, paragraphs 7.2, 7.3). The OSCE Helsinki Final Act confirms the basic principles of interstate relations, including the possibility of amending the boundaries through peaceful means, and sovereign states have the right to enter into any international agreements, including the territory and borders (Written reply of the Cabinet of Ministers to LR Constitutional Court in case No 2007-10-0102, 2007, paragraph 2.6.1.).

The Cabinet of Ministers in its written reply to the Constitutional Court concluded that the facts which had been set out did not create the historical reasons for Abrene's belonging to the Latvian State as a Latvian ethnographic land (Written reply of the Cabinet of Ministers to LR Constitutional Court in case No 2007-10-0102, 2007, paragraph 3.2.4.). However, in the author's point of view, this conclusion is not derived from the answer, the interpretation of the site designation ethnographic principle is analyzed rather controversially in the paper because, at the same time, Abrene's historical and ethnic belonging to Latvians is indicated, confronting it to some of the economic and military-strategic interests in a rather limited period of time, which in fact should not be considered as valid counter-arguments of internationally accepted area and thus the delimitation principles. This is confirmed by Dr. A.Fogelis' assertion that the term "territory of the State" is closely related to the concept of "national territory". In relation to the nation of one state, these

concepts coincide because the territory of the country is also the nation's living area (Fogels, 2009, p.175). Similar and even radical views were expressed by acting president of the Civil Congress E.Alksnis: „... the adoption of a new border treaty, abandoning a part of the territory of Latvia, is contrary to the Latvian national legal continuity. The adopted rulings of the actual governing body and its officers in the territory of the Republic of Latvia concerning the resignation from the right of a part of the territory of the Republic of Latvia is contrary to Article 3 and Article 77 of the Constitution (The decision on the annexation of Abrene cities and six Abrene district parishes, 1992) and is not valid and not having legal consequences. The abandonment of a part of the territory of the Republic of Latvia in favour of the occupying state is a criminal offense both in accordance with the Punishment Law of the Republic of Latvia and the currently in force Criminal Law of the Republic of Latvia" (Alksnis, 2007).

The proposed analysis in the Constitutional Court judgment about the continuity of the state or continuity doctrine, the State ethnographic aspect of the site designation, the interpretation of the state border irrevocability leads to the conclusion on a clear definition of the need and importance of the national territory. "Fathers" of the Constitution solidified the national sovereignty and national territory in first articles of the Constitution and ensured a mechanism in which both of these elements are mutually protected (The Border Treaty: Judgment. Material. Comments. 2009, Ziemele, p.62). From the grammar interpretation point of view, *expressis verbis* of Article 3 of the Constitution defines the national territory of Latvia by reference to the specified limits in international agreements and points to two independent theses of structure in Article 3 of the Constitution: first, "The territory of the State of Latvia"... consists of Vidzeme, Latgale, Kurzeme and Zemgale", secondly, [consists] of international agreements, (The Border Treaty: Judgment. Material. Comments.2009, Paparinskis, p.70).

The Border Treaty, which was signed in Moscow, March 27, 2007 with Russia, was adopted and approved by the law in Latvia on May 17, 2007, considering the OSCE principle of inviolability of borders. However, with the judgement of the Constitutional Court, on November 29, 2007, the words "pursuant to the principle of inviolability of borders adopted by the European Security and Cooperation Organization" are recognized as inconsistent with Article 68, the first paragraph of the Constitution and invalid from the date of publication of the judgment (The Law On Treaty of the Republic of Latvia and the Russian Federation on the Latvian and Russian Border, 2007, art.1).

Nowadays, when all the border treaties of Latvia, with the exception of the marine border treaty with Lithuania, have been contracted, along with development of the International Law of the Sea, there is mainly determined specifically the sea territory of Latvia and there may be defined the airspace of the State with development of the international air law. From the public administration and sovereignty point of view, due to a rather frequent use of the term of national territory in both national and EU law, a specific understanding of the national territory of Latvia is possible. A specific definition of the national territory of Latvia was not possible at the beginning of 20th century – the period of Constitutional acceptance, as indicated by Dr. J.Pleps (The Border Treaty: Judgment. Material. Comments, 2009, Pleps, 2009, pp.129.-135), but it is possible now when it has sufficient doctrinal foundation in contractual rights and international law.

It must be admitted, the issue of Abrene was not analyzed and there was not used precedent experience in international territorial disputes and there had not been reached run-through a dispute in the International Court of Justice (The Border Treaty: Judgment. Material. Comments, 2009, Lēbers, 27.lpp.), although there has been a lot of precedents in international territorial and border disputes in the middle of 20th century (Prescot, 1978, 27, pp.35–40) and also nowadays (Decision of the UN International Court of Justice on the delimitation of the maritime border between Qatar and Bahrain, 2001), including in Europe, such as Denmark - Sweden dispute on the continental shelf (settled by the UN, 1984), Ukraine - Romania dispute about the delimitation of maritime borders (in connection with Snake Island's belonging) in the Black Sea (regulated in 2009), (*International Court of Justice Report of Judgements, Advisory Opinions and Orders Maritime Delimitation in the Black Sea (Romania v. Ukraine, 2009)*), Finland - Sweden dispute about the Tana - Tenojoki river (has not been settled so far) (Лунден, 2011, 185 – 186, p. 190).

The UN Charter, the UN Declaration on Principles of International Law (*Declaration on Principles of International Law Concerning Friendly Relations and Co-operation among States in accordance with the Charter of the United Nations, 1970*), as well as the Vienna Convention on the Law of Treaties, in fact, contains many rules of the international law, which in partly systematized form was created in the period of World War I, in doctrine of the US president T.W.Wilson (Bojars, 2004, p.129), who offered four principles on February 11, 1918, of justice, peace, people's right to territorial integrity, settlement of territorial disputes through treaties and respect for self-determination of peoples internationally. The same year on July 4, T. W.Wilson anticipated these principles in the form

of four goals, including territory, and thus in the border context: „Each issue of territory, sovereignty, economic agreement or political communication issue need to be solved by adopting settlement on the free agreement of its people, which this agreement directly affected, and not to any other nation or people's interests or preferential basis, which would otherwise use settlement of its external impact or majeure” (Seskis, 1991, p.154). Thus, at the beginning on 20th century Wilson offered the main principles of international law which were included in further laws and regulations contained in second half of 20th century.

Conclusions and suggestions

Important and noteworthy is the accentuation of the national territory spatial boundaries and their attribution to the form of dimension because the spatial meaning of the phrase "corresponding to this line vertical surface" in the definition of the concept of national borders of the Republic of Latvia, as well as in relevant definitions of other countries is not sufficiently precise due to the fact that the earth is of spherical shape (although it is a slightly stretched in the direction of the equator as a result of the centrifugal force), and the vertical surface of the overlapping state border lines should not be absolutely vertical. In this case, it should be assumed that the country renounces its own significant part of the airspace, but perhaps unreasonably another neighbouring state subsoil space is added. Also, the word 'surface' in the definition of the state border is not accurate, because from the geometric terminology point of view it's a plane or nozzle.

The territory of the State is not only a state border demarcated space in which the State is implementing its power but also the nature of its components – land, water, air space, the depths of the earth and the natural resources that are used in the national economy and are forming the material basis of the territory.

The territory of the State is bounded by land, sea and air borders. The territory of the State is sometimes understood as a land or water surface. But state, setting national borders as well border treaties and national regulatory frameworks, include the concept of national borders within its jurisdiction spread not only in the territory of the surface but also in the spatial sense – the technical capacity of subterranean depth in depths and airspace (100 km above sea level).

In the Latvian National legislative framework with regard to the jurisdiction of marine areas, with determination of the baseline, in use of terms by the Convention on the Law of the Sea (“inland and sea waters”, “inland sea waters”, “sea waters”), there are several deficiencies in the

concept, terminological inaccuracies and even contradictions with the Convention on the Law of the Sea.

With regard to the Latvian national sovereignty and jurisdictional issues in the Baltic Sea, the contiguous zone is a topical issue, which is designed as a separate legal term in the Convention on the Law of the Sea. The contiguous zone cannot be extended to the territory that lies further than 24 nm from the baseline from which a breadth of the territorial sea is measured. However, the contiguous zone is referred to and is defined neither in the Law on the State Border nor in the Marine Environment Protection and Management Law, consequently, it is also not intended for the competence of the public administrations in the implementation of the Latvian jurisdiction (thus sovereignty) in the contiguous zone.

From the grammar interpretation point of view, *expressis verbis* of Article 3 of the Constitution defines the national territory of Latvia by reference to the specified limits in international agreements and points to two independent theses of structure in Article 3 of the Constitution: firstly, "The territory of the State of Latvia" ... consists of Vidzeme, Latgale, Kurzeme and Zemgale ", secondly, [consists] of international agreements.

Nowadays, all the border treaties of Latvia, with the exception of marine areas border treaty with Lithuania, have been contracted. Along with development of the International Law of the Sea, there is mainly determined specifically the sea territory of Latvia and there may be defined the airspace of the State with development of the international air law. From the public administration and sovereignty point of view, due to a rather often use of the term of national territory in both national and EU law, a specific understanding of the national territory of Latvia is possible. A specific definition of the national territory of Latvia was not possible at the beginning of 20th century – the period of Constitutional acceptance, as indicated by Dr. J.Pleps, but it is possible now when it has sufficient doctrinal foundation in contractual rights and international law.

Consequently, the territory of Latvia is the Latvian state border surrounded by land, subterranean depths, internal waters, the territorial sea and airspace 100 km above sea level. Within its borders (and in certain cases also beyond its) the State performs its territorial supreme command, which is one of the elements of sovereignty.

The author explored the international legal framework for determining the spatial boundary of the national territory. As a result, the author proved the hypothesis and offered a specific definition of national territory of the Republic of Latvia as international legal subject. If this definition of national territory would be included in the national

regulatory framework, it will contribute the sovereignty and security of international relations.

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LATVIJAS VALSTS KĀ STARPTAUTISKO TIESĪBU SUBJEKTA TELPISKAIS IETVARS

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Kopsavilkums

Pētījuma aktualitāte saistīta ar valsts teritorijas jēdziena precīzāku un skaidrāku definēšanu nacionālajā normatīvajā regulējumā. Pētījuma mērķis ir izpētīt mūsdienu starptautisko normatīvo regulējumu un tiesu praksi valsts teritorijas jēdziena dziļākai izpratnei, iniciējot diskusiju par šī jēdziena harmonizāciju nacionālajā normatīvajā regulējumā. Pētījumā ir izmantotas šādas pētniecības metodes: a) sistēmiskā metode b) gramatiskā metode; c) vēsturiskā metode; d) analīzes metode; e) teleoloģiskā metode. Pētījuma hipotēze: ja Latvijas kā starptautisko tiesību subjekta valsts teritorija tiks konkrēti definēta nacionālajā normatīvajā regulējumā, tas sekmēs valsts suverenitāti un drošību starptautiskajās attiecībās.

Termins „valsts teritorija” bieži sastopams starptautiskajā, Eiropas Savienības un nacionālajā normatīvajā regulējumā. No gramatiskās interpretācijas viedokļa Satversmes 3.pants *expressis verbis* definē Latvijas valsts teritoriju ar atsauci uz starptautiskajos līgumos noteiktajām robežām un norāda uz Satversmes 3.panta struktūras divām neatkarīgajām tēzēm: pirmkārt, „Latvijas valsts teritoriju.. sastāda Vidzeme, Latgale, Kurzeme un Zemgale”; otrkārt, [sastāda] starptautiskos līgumos noteiktās robežās.

Mūsdienās Latvijai visi robežlīgumi ar kaimiņvalstīm ir noslēgti, izņemot jūras teritoriju robežlīgumu ar Lietuvu. Līdz ar Starptautisko jūras tiesību attīstību lielākoties ir konkrēti noteikta Latvijas teritoriālā jūra un ar starptautisko gaisa tiesību attīstību var tikt noteikta arī valsts gaisa telpa (augšējā robeža līdz 100 km virs jūras līmeņa – Karmana līnija).

No valsts pārvaldes un suverenitātes nodrošināšanas viedokļa un sakarā ar valsts teritorijas termina biežo lietojumu gan nacionālajās, gan Eiropas Savienības tiesībās, ir iespējama Latvijas valsts teritorijas konkrētāka izpratne. Konkrēta Latvijas valsts teritorijas definēšana nebija iespējama 20.gs sākumā Satversmes pieņemšanas periodā, bet ir iespējama tagad, kad tam ir pietiekams Latvijas līgumtiesību un starptautisko tiesību doktrinālais pamats.

Latvijas teritorija ir Latvijas Republikas valsts robežas ieskauda sauszeme, zemes dzīles, iekšējie ūdeņi, teritoriālā jūra un gaisa telpa virs tiem. Šajā telpā Latvijas Republika ir suverēna un izplata savu jurisdikciju saskaņā ar starptautiskajiem un nacionālajiem tiesību aktiem. Savas teritorijas robežās (jūras teritorijās - arī ārpus teritoriālās jūras) valsts īsteno savu teritoriālo virsvadību, kas ir viens no suverenitātes elementiem.

Atslēgas vārdi: *valsts teritorija, gaisa telpa, teritoriālā jūra, zemes dzīles, jurisdikcija.*

THEORETICAL ASPECTS OF MEASUREMENT AND MANAGEMENT OF COMPANY'S PERFORMANCE

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Abstract. *The concept of performance is one of the most important categories of economic analysis, it has been extensively used and it has a broad interpretation. To describe the concept of performance, the related words are used, linked by the noun "performance": performance management, performance measurement, and performance assessment. In Latvia, these concepts have not been analysed and assessed; therefore, there is a necessity to carry out a theoretical investigation into the concept of performance as well as the concept of performance measurement and management. The research is based on the analysis of foreign scientific publications and special literature devoted to the concept of performance and issues of performance measurement and management. The aim of the research is to carry out a theoretical investigation into company's performance and performance measurement and management. General research methods are employed in this research: the monographic or descriptive research method, the comparative research method, carrying out exploration of the concepts "performance" and "performance measurement and management framework", based on the extensive study of literature. As a result of the research, the investigation into the concept of performance has been carried out, systematization of the performance measurement and management frameworks and systematization of the small and medium-sized companies' performance measurement and management frameworks have been performed.*

Keywords: *framework, management, measurement, performance*

JEL code: *M10, M21*

Introduction

To describe the results of business activities, the concept of performance is exploited in the foreign research and academic literature. The Commission of Terminology of the Latvian Academy of Science offers to use the following terms for translation of this term in the Latvian language: *izpildījums, veikums; sniegums, veiktspēja* (Terminoloģijas jaunami, 2003). In the report on the quality improvement of the higher education, A.Rauhvargers uses Latvian translation of the concept of performance – "*sniegums*", providing also the definition of the terms (Verbraak et al., 1999). The concept of performance has been extensively used and it has a broad interpretation. The concept of performance seems to be taken as something of a given, especially in its contextual

use; it can have a certain degree of ubiquitousness that suggests that it has become something of a semantic shorthand, similar in its all-pervasive generality to such terms as “model”, “framework”, or “development”— with all the terms opulently scattered throughout the research literature without having, it seems, many limiting effects. The topics of performance measurement/management/assessment/evaluation have received relatively little examination from initial foundations that consider the terms that comprise the concepts themselves in the context in which they are placed (Folan et al., 2007).

The topic, provided in the paper, has not been thoroughly investigated in Latvia; the above mentioned statements indicate the necessity to explore the concept of performance as well as performance measurement and management, exploiting the analysis of special literature and foreign academic publications as a base.

The aim of the research is to carry out a theoretical investigation into the company’s performance and performance measurement and management. The following tasks are formulated to accomplish the aim:

- 1) To investigate the concept of performance;
- 2) To systematize and evaluate performance measurement and management frameworks;
- 3) To systematize and evaluate small and medium-sized companies’ performance measurement and management frameworks.

Research object: company performance

Research hypothesis: Understanding of the concept of performance and performance measurement and management promotes the application of objective procedures to evaluate company’s business activities.

The research is based on the analysis of foreign scientific publications and special literature devoted to the concept of performance and the issues related to the performance measurement and management. General research methods employed in the research are the monographic or descriptive research method, the comparative research method, carrying out exploration of the framework of such concepts as “performance” and “performance measurement and management” based on the extensive study of literature.

Interpretation of the concept of performance

The concept of performance has several meanings and the all-encompassing nature as well as extreme popularity as an expression in regular speech. Performance is a fact of life. In work or in play, indeed in any activity which we pay even momentary attention to, performance can

be felt or, at least, deduced if necessary (Folan et al., 2007). Lebas (1995) considers that performance is never objective; it is only a way of defining where one wants to go. "Performance" (Berger, Luckmann, 1966) is an interesting concept. "Performance" is not an objective reality out there somewhere waiting to be measured and evaluated. "Performance" is a socially constructed reality.

One of the company's priorities is the achievement of a specific aim (Folan et al., 2007; Winstanley, Stuart – Smith, 1966), furthermore, the company is assessed according to its future goals, referring to the targets the company intends to achieve. Laitinen (2002) defines performance as an ability of an object to produce results in a dimension determined a priori, in relation to a target. Thus it is necessary to have, first, an object whose performance is to be considered; second, a dimension in which one is interested; and, third, a set target for the result. Folan (2007) supposes that the performance is governed by the following three priorities: (1) It is always made as per the deemed relevance of an entity to a particular environment (thus, we commonly assess a company on its impact, for example, in a particular market...); (2) It is always made with a relevant objective in mind (thus, we commonly assess a company as per some set future vision on what the company wants to achieve...); (3) It is always reduced to relevant, recognisable characteristics (thus, we commonly assess a company on competitive parameters, such as cost, quality, time, etc., and more harder-to-measure competitive priorities, such as flexibility, or sustainability, because they are relevant and recognisable etc.).

To describe the concept of performance, the related words are used, linking them with the noun "performance": performance management, performance measurement and performance assessment. Performance management is management of a system put in place by an entity (with a pre-determined socially constructed reality) that has chosen a relevant viewpoint of itself (its objective) towards which it means to progress, using a set of recognisable characteristics as its measurement apparatus (performance measurement) to monitor this progress (Folan et al., 2006). This definition makes the requisite distinction between performance management and performance measurement. The performance management process is the process by which the company manages its performance in line with its corporate and functional strategies and objectives (Bititci et al., 1997) and performance measurement and performance management follow one another in an iterative process; management both precedes and follows measurement, and in doing so creates the context for its existence (Lebas, 1995).

There are several preconditions set for the performance measurement. Stalk and Hout (1990) offer two rules for performance measures: (1) the measure should be kept physical (i.e. quantitative) and (2) the measure should be taken as close to the customer as possible. Band (1990) considers that performance measurement needs to: have top management support; involve employees in their development (particularly customer satisfaction measures) and etc. Maskell (1992) suggests that new world-class performance measures should: primarily use non-financial performance techniques; vary between locations; change over time as the company needs change; are intended to foster improvement rather than just monitoring. Performance management (Lebas, 1995) precedes and follows performance measurement, in a virtuous spiral and performance management creates the context for measurement, so they are not separable.

Performance measurement can be defined as the process of quantifying the efficiency and effectiveness of actions, but a performance measurement system can be defined as the set of metrics used to quantify both the efficiency and effectiveness of actions (Neely, 2005). Mouzas (2006) considers that efficiency and effectiveness are central terms used in assessing and measuring the performance of organisations. Performance measurement by using particular quantitative indicators as efficiency and effectiveness could be characterised as an operations perspective (Zeglat, 2012).

The relationships between the company's performance measurement, using the DuPont model, efficiency, and effectiveness are shown in Figure 1.

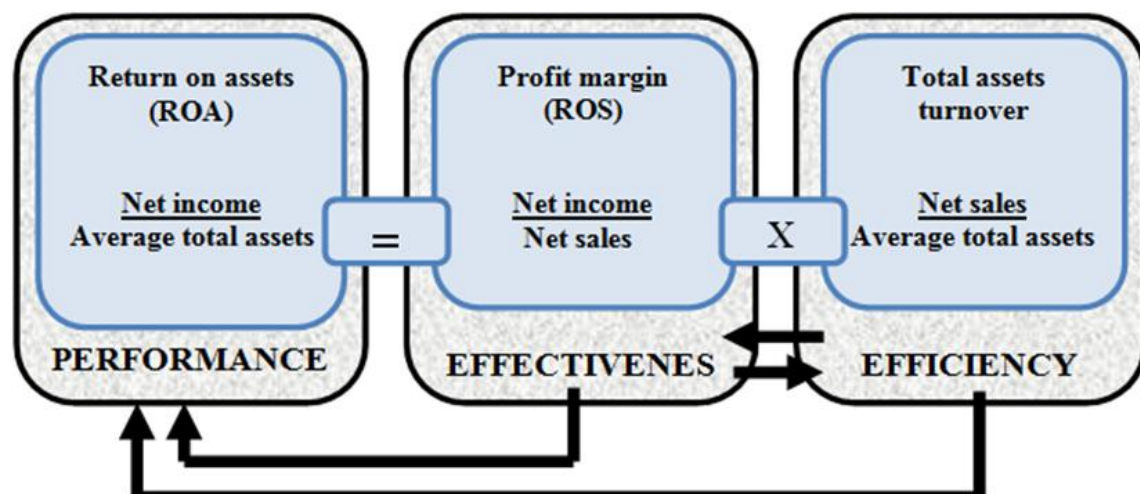


Fig.1 The use of the DuPont model in performance measurement; generated by the author, based on the scientific views of Ho, Zhu (2004) and Ozcan (2008)

Functional effectiveness can influence economic efficiency and vice versa, as well as functional and economic efficiency can affect the company's performance. Applying the DuPont model and the company's performance, it is possible to express Return on Assets (ROA) as a measurement of functional effectiveness (sales profitability) and economic efficiency (total assets turnover ratio).

Performance assessment (Bourguignon, Chiapello, 2005) may be defined as "a process by which an authorized person formulates a judgement, producing various consequences – on the value of some attributes of another person, by the way of appropriate instrumentation and three steps that may be identified as follows:

- (1) *Instrumentation* – defines preconditions of the performance measurement and includes *performance definition*, *measurement selection*, which will be used in Step 2 and *references* (e.g., data on the past or the budget).
- (2) *Evaluation – measuring*, based on the selected indicators that could be both quantitative (financial performance) and qualitative (non-financial performance), and *assessment value*, which depends on information, reference, and evaluator.
- (3) *Consequences* – includes *distribution decisions* related with the wage and premiums, change of position in the company, awarding financial resources in the future.

The relationship model between three terms – performance management, performance measurement and performance assessment, their mutual reciprocation and importance, both in common and separately, shown in Figure 2. In Figure 2, it could be seen that the performance assessment implies more than simple measurement; assessment if performed only at the middle stage of the model provided, after the preparatory seeds have been sown in the first step "instrumentation". Performance assessment itself is an actively employed tool of the performance management environment, which, as we determined earlier, encompasses performance measurement and results in an evolving performance management arena, progressively changing as the strategic objective is evaluated and updated (or reset) for the future (Folan et al., 2007). Complexity of the performance not just points out that none of the terms – performance management, performance assessment and performance measurement – could be examined separately; it also indicates that, for instance, the choice of a particular performance measurement method defines the choice of assessment and management methods.

The performance measurement system that is depicted in Figure 2 could be used as a tool to cascade performance metrics down to achieve

the strategies and objectives of a company and also to align processes with strategic goals as well as objectives could be described as a strategic perspective (Zeglat, 2012).

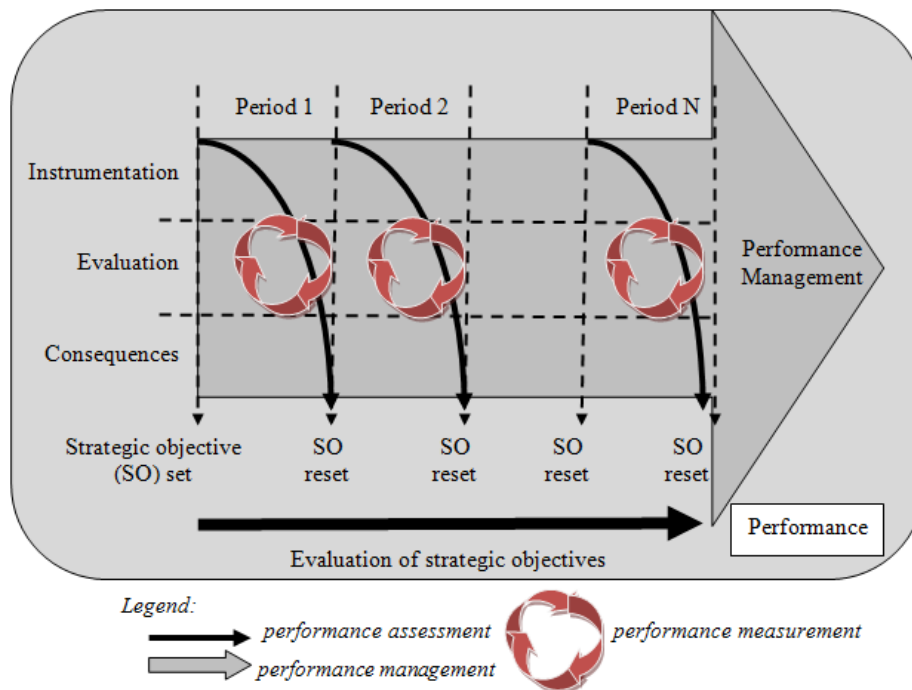


Fig.2 Relationships of performance management, performance assessment and performance measurement; created by the author, based on Folan et.al. (2007)

The author concludes that company's performance can be described as the ability of the company to represent itself to the outside, using the performance indicators that characterise activities and achievements of the company in relation to its goals, thus creating an overall opinion about the company.

Investigation of performance measurement and management frameworks

Interest about the issues of the performance measurement and management has increased during the last two decades (Taticchi et al., 2010; Susilawati et al., 2013; Yadav, Sagar, 2013). Indian researchers (Yadav, Sagar) have performed a historical analysis of performance measurement and management frameworks, pointing out three development stages: management accounting perspective (from the beginning of the 19th century till 1920), financial perspective (1920-1970); and, since 1970 – integrative perspective. The historical study of the performance measurement and management was focused on the period from 1991 to 2011; it was argued that the choice of the research period was determined by the revolutionary changes in the performance

measurement, deriving from the factors such as increasing competition, changes in external demand, the growing role of information technologies, etc. The researchers of Thailand and New Zealand (Srimai et al., 2011) have presented evolutionary paths referred to the performance measurement and showed four paths of the performance measurement – from operations to strategy, measurement to management, static to dynamic and economic-profit to stakeholder focus.

The performance measurement frameworks have the strongest impact on the performance measurement. The term framework refers to the active employment of particular sets of recommendations: for example, a set of measurement recommendations may suggest the development of a structural framework (e.g. Balanced scorecard (Kaplan, Norton, 1992; 1993; 1996b, 2006.) or they may give rise to a procedural framework (e.g. Wisner, Fawcett (1991) framework). A performance measurement framework (Rouse, Putterill, 2003) assists in the process of performance measurement system building, by clarifying performance measurement boundaries, specifying performance measurement dimensions or views and may also provide initial intuitions into relationships among the performance measurement dimensions.

The author has summarized the performance measurement and management frameworks in Table 1, providing characteristics of the performance measurement systems used; it has to be mentioned that it is complicated to identify particular performance measurement dimensions of the process performance measurement systems. The performance measurement frameworks that were analysed characterize performance measurement disregarding the size of enterprise.

Table 1 Performance measurement and management frameworks, compiled by the author

| Performance measurement and management framework / model | Dimensions of performance measures | Author |
|--|--|--------------------------------------|
| The Activity Based Costing (ABC) | * | Staubus, 1971; Cooper, Kaplan, 1987. |
| Performance Measurement Matrix | Financial, non-financial, internal, external | Keegan et al., 1989 |
| The customer value analysis | * | Customer Value, Inc., 2007. |
| Performance Measurement Questionnaire | * | Dixon et al., 1990. |
| Wisher and Fawcent's framework | * | Wisner, Fawcett, 1991. |

| | | |
|--|---|---|
| The Results and Determinants Framework | Financial performance, Quality, Competitiveness, Flexibility, Resource utilization, Innovation | Fitzgerald et al.,1991; Fitzgerald, Moon, 1996. |
| Strategic Measurement Analysis and Reporting Technique (SMART) | Market, Financial, Customer satisfaction, Flexibility, Productivity, Quality, Delivery, Cycle time, Waste | Lynch, Cross, 1991. |
| European Foundation for Quality Management's Business Excellence Model | Leadership, People, Policy & strategy, Partnership & resources, Processes, Key performance results | EFQM, 1991 |
| Balanced Scorecard | Financial, Customer, Internal processes, Learning and growth perspectives | Kaplan, Norton, 1992; 1993; 1996b, 2006. |
| Input - Process - Output - Outcome Framework | * | Brown, 1996. |
| Integrated Performance Measurement System | * | Bititci et al., 1997 |
| Integrated Dynamic Performance Measurement System | Financial measures, Customer satisfaction, Cycle time, Defect rate, Quality, Delivery, Process technology, Education and training | Ghalayini et al., 1997. |
| Integrated Performance Measurement Framework | Quality, Cost, Flexibility, Time, Delivery, Future growth | Medori, 1998a; 1998b; Medori, Steeple, 2000. |
| Performance Prism | Stakeholder satisfaction, Stakeholder contribution, Strategies, Processes, Capabilities | Neely et al., 2001; 2002. |
| Kanji's Business Scorecard | Stakeholder values, Process excellence, Organizational learning, Delighting stakeholders | Kanji, Sà, 2002. |
| Dynamic Multi - dimensional Performance Framework | Financial, Market, Process, People and Future | Maltz et.al., 2003. |
| Holistic Scorecard | Financial, Customer, Business process, Intellectual capital, Employee and Social Perspectives | Sureshchandar, Leisten, 2005. |
| Total Performance Scorecard | Financial, Customer, Internal, Knowledge and learning perspectives, Process improvement, Personal improvement | Rampersad, 2005. |
| Holistic Performance Management Framework | Stakeholder, Market, Supply chain management, Value creation | Andersen et al., 2006. |
| Flexible Strategy Game - card | Situation, Actors, Process, Performance, value in offerings and relationships | Sushil, 2010 |
| System Dynamics - based Balanced Scorecard | Financial, Customer, Internal process, Learning and growth | Barnabe, 2011. |

* specific dimensions of performance are not defined

In the changing business environment, which is mainly influenced by the global competition, development of the technologies and liberalization of the economy, the company's existence is more complicated as ever before. Changes in the business environment determine the necessity to develop and strengthen the competitive advantages, hence, changing the mode of the company's performance measurement. An active use of the performance measurement system is a precondition for its evolution (Kennerley, Neely, 2002).

The author, assessing the development of performance measurement and management frameworks, concludes that the multidisciplinary aspects of the frameworks are discovered. In the period from 1989 to 2000, rapid development and changes of the performance measurement and management frameworks could be observed. The performance measurement and management frameworks that have been analysed indicate that their authors had an intention to create a process or a mechanism that would help the company's management to increase the company's competitiveness and, in a long-term, to focus on the achievement of the company's objectives. Whereas the performance measurement dimensions were mainly focused on the financial measurements, quality, customer satisfaction, competitiveness; if changed, it was a change from merely financial perspectives to integrated perspectives.

From 2001, the advancement of the Balanced Scorecard approach actualized. The transition from a set of stakeholders' interests to the all-stakeholders' interests occurred. The researchers realised that a lack of casual relations, intrinsic to the Balanced Scorecard, could be eliminated by the system methodology. The application of simulation methods to find the most appropriate future intervention policy could help to identify and to adjust the objectives in accordance with the performance measures. Dynamic, integrated performance measurement and management systems were developed in the companies.

The analysis of the performance measurement and management frameworks, summed up in Table 1, allows the author to conclude that the performance measurement dimensions include characteristics both of the financial and non-financial performance of the company.

On the basis of the views of researchers (Taticchi et al., 2010; Yadav, Sagar, 2013), the author arranges performance measurement and management frameworks, analysed in Table 1, in the following groups:

- Classical and dominant performance measurement and management frameworks: Balanced Scorecard, Strategic Measurement Analysis and Reporting Technique (SMART), the European Foundation for Quality Management's Business

Excellence Model, the Performance Prism. Contribution of these frameworks is related with the integration of non-financial measures, introduction of quality, self-evaluation, and involvement of stakeholders in the performance measurement process.

- Holistic and integrated performance measurement and management frameworks: Integrated Dynamic Performance Measurement System, Integrated Performance Measurement Framework, Integrated Performance Measurement System, Dynamic Multi – dimensional Performance Framework, Holistic Performance Management Framework, Flexible Strategy Game – card. These frameworks mainly consider the comparison of the performance with the future, individual performance with the company's performance, as well as harmonization of functional and strategic aspects in the company's business.
- The approaches upgrading the Balanced Scorecard approach: Kanji's Business Scorecard, Holistic Scorecard, Total Performance Scorecard, System Dynamics – based Balanced Scorecard. These approaches advance the Balanced Scorecard approach, taking into account the company's point of view, a system development methodology and modelling, intellectual and social perspectives.
- Other essential performance measurement and management frameworks: The Results and Determinants Framework, Performance Measurement Questionnaire, Input – Process – Output – Outcome Framework, Wisner and Fawcett's framework, Performance Measurement Matrix, The Activity Based Costing (ABC), Customer Value Analysis.

Investigation of the performance measurement and management frameworks of small and medium-sized enterprises

The first performance measurement model for large companies was developed in 1980 (Economic Added Value Model), though, the first research studies on the performance measurement in small and medium-sized companies (SME) emerged only in the second half of the 1990s. At the beginning of the 2000s, there were 2 directions in the research studies on the SME's performance measurement: (1) adaptation of the performance measurement models originally developed for large companies and (2) development of the specific models designed for SMEs (Taticchi et al., 2010).

The performance measurement issues in SMEs have been explored by the researchers of Portugal (Barreiros, 2013), Malaysia (Jamil, Mohamed, 2011) South Africa (Phihlela, Odunaike, 2012), Italy (Garengo et al., 2005; Taticchi et al., 2008; Cocca, Alberti, 2010; Bianchi et al., 2013), etc.

The views of the researchers on the performance measurement in SMEs differ. There is an opinion that most SMEs apply performance measurement systems passively due to the lack of capital and human resources, severe competition, and because SMEs do not recognize advantages provided by the performance measurement systems (Barnes et al., 1998). Hudson (2001) emphasizes that companies have to apply measures that are relevant to the size and the needs of an organization. Despite the measurement performance assessment, insufficient attention is paid to the performance measurement in SMEs; most of the research studies are devoted to the application of the performance measurement systems in large enterprises. In many performance measurement research studies, the size of a company is not considered at all (Garengo, Bititci, 2007). Specific parameters, including the financial and non-financial indicators, optionally defined main performance indicators that take into account the common value chain, should be defined as a requirement to be covered by the performance measurement systems, disregarding the size of an enterprise, thus fostering the communication of the results (Kueng et al., 2000).

The performance measurement in SMEs is affected by: limited human resources and capital resources; management capacity; insufficient strategic planning; lack of a management system and formal management processes; an incorrect idea regarding the performance measurement, lack of understanding about its advantages (Garengo et al., 2005).

Companies can focus on the financial and non-financial measures to assess their performance. Massalla (1994) and Monkhouse (1995) consider that SMEs pay more attention particularly to the financial indicators. Along with the development, the traditional performance measurement systems that are based only on the financial indicators gradually are being replaced by the systems that include the non-financial indicators as well (Kaplan, Norton, 1992; 1996b). Some research studies strive further and attempt to assess SMEs performance by adjusting the performance measurement systems to SMEs (Laitinen, Chong, 2006). Regarding the performance measurements, the SMEs depend mainly on the accounting data and financial indicators (Carpinetti et al., 2008); there is a mistaken opinion among the SMEs regarding

performance measurement that it is considered to be a waste of time (Garengo et al., 2005).

It is proposed to classify the performance measurement and management frameworks in accordance with Taticchi's et al. (2010) classification amended by the author:

- Applications/ adaptation of the performance measurement models developed for the large enterprises: Model for quality-based performances (Noci, 1995), Balance Scorecard application to SMEs (Chow et al., 1997; Bergen, Benco, 2004; Yang, 2009; Monte, Fontenete, 2012), Computer Integrated Manufacturing in SMEs (Marri et al., 1998), Activity-based costing in SMEs (Gunasekaran et al., 1999), Quality models in an SME context (McAdam, 2000), Benchmarking of SMEs performance measurement (Monkhouse, 1995; St-Pierre, Delisle, 2006) and Contingency approach to performance measurement (Garengo, Bititci, 2007).
- Development of the specific performance measurement models for SMEs: Customer orientation and performance (Appiah-Adu, Singh, 1998), Computer-based performance measurement in SMEs (Kueng et al., 2000) and A Business Process Improvement framework and Performance Assessment Methodology for SMEs (Khan et al., 2007).
- Integrated performance measurement and management frameworks for SMEs: System for organizational performance measurement (Chennell et al., 2000), Effective performance measurement in SMEs (Hudson et al., 2001a) and Dynamic integrated performance measurement system (Laitinen, 2002).
- Interesting research studies on the performance measurement and management frameworks for SMEs: Performance measurement based on SME owner's objectives (Jarvis et al., 1999; Watson et al., 2000), Theory and practice in SME performance measurement systems (Hudson et al., 2001b), Indicators for performance measurement in SMEs (Hvolby, Thorstenson, 2001), Practice of performance measurement (Sharma et al., 2005) and a performance measurement model based on the grounded theory approach (Chong, 2008).

SME performance measures should include financial and non-financial measures (Bianchi et al., 2013), comprising three dimensions: competitiveness, financial, and social. *Competitiveness dimension* is oriented towards the satisfaction of market needs, offering better products/services than competitors do. The aim of the *financial dimension* is to increase the company's profitability, supporting future

investments and paying to the shareholders. *Social dimension* has to ensure balance among the investments of the stakeholders (employees, customers, founders, shareholders, state) and the benefits provided them by the company (wages, quality of products/services, dividends, taxes, etc.).

The author, after carrying out the evaluation of the SMEs' distinctiveness and analyzing the performance measurement and management frameworks for the large and small and medium-sized enterprises, concludes that their evolution demonstrates attempts towards the consolidation of the financial performance perspective and the non-financial performance perspective.

Conclusions

The company's performance can be described as an ability of the company to represent itself to the outside, using the performance indicators that characterize activities and achievements of the company in relation to its goals, and thus creating an overall opinion about the company.

The performance measurement and management frameworks could be arranged in the following groups: classical and dominant performance measurement and management frameworks, holistic and integrated performance measurement and management frameworks, frameworks adapting the Balanced Scorecard approach, and other essential performance measurement and management frameworks.

The SME performance measurement and management frameworks could be arranged in the following groups: application/adaptation of the performance measurement models developed for large enterprises, development of the specific performance measurement models for SMEs, integrated performance measurement and management frameworks for SMEs, and interesting research studies on the performance measurement and management frameworks for SMEs.

On the basis of the evaluation of the SMEs' distinctiveness and analysis of performance measurement and management frameworks for the large and small and medium-sized enterprises, it can be concluded that their evolution demonstrates attempts towards the consolidation of the financial performance and non-financial performance perspectives.

The research hypothesis is proven to be true, since the understanding of the concept of company's performance and awareness of the performance measurement and management frameworks provide the companies' managers with the possibility to assess the company's measurement and management frameworks and to select the one, which,

in the company manager's opinion, could enhance an objective evaluation of the company's performance.

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UZŅĒMUMA SNIEGUMA MĒRĪŠANAS UN VADĪŠANAS TEORĒTISKIE ASPEKTI

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Kopsavilkums

Snieguma jēdziens ir viena no svarīgākajām ekonomiskās analīzes kategorijām, tas tiek plaši pielietots un tam ir plaša interpretācija. Snieguma jēdziena raksturošanai lieto saistītus vārdus, kurus vieno lietvārds "sniegums: performance management, performance measurement and performance assessment. Latvijā nav veikta doto jēdzienu analīze un izvērtēšana un tas rada nepieciešamību veikt snieguma jēdziena un snieguma mērīšanas un vadīšanas teorētisku izpēti. Pētījums pamatojas uz speciālās literatūras un ārvalstu zinātnisko publikāciju analīzi par snieguma jēdziena un snieguma mērīšanas un vadīšanas jautājumiem. Pētījumā izmantotas vispārzinātniskās pētījumu metodes: monogrāfiskā jeb aprakstošā pētījuma metode un salīdzināšanas metode, veicot snieguma jēdziena un snieguma mērīšanas un vadīšanas ietvaru izpēti, pamatojoties uz plašu zinātniskās literatūras apskatu. Pētījuma mērķis: veikt uzņēmuma snieguma un snieguma vadīšanas un mērīšanas teorētisko izpēti.

Pētījuma rezultātā veikta snieguma jēdziena izpēte, snieguma mērīšanas un vadīšanas ietvaru sistematizācija, mazo uzņēmumu snieguma mērīšanas un vadīšanas ietvaru sistematizācija. Snieguma mērīšanas un vadīšanas ietvarus var iedalīt šādās grupās: klasiskie un dominējošie snieguma mērīšanas un vadīšanas ietvari, holistiskie un integrētie snieguma mērīšanas un vadīšanas ietvari, Balanced Scorecard pieeju pilnveidojošie ietvari: un citi būtisku snieguma mērīšanas un vadīšanas ietvari. Mazo un vidējo uzņēmumu (MVU) snieguma mērīšanas un vadīšanas ietvarus var iedalīt šādās grupās: lielajiem uzņēmumiem izstrādāto snieguma mērīšanas modeļu pielietošana/adaptācija, specifisku snieguma mērīšanas modeļu MVU attīstība, integrēti MVU snieguma vadīšanas un mērīšanas ietvari un interesanti pētījumi snieguma vadīšanas un mērīšanas ietvariem MVU.

Izvērtējot mazo un vidējo uzņēmumu īpatnības un snieguma mērīšanas un vadīšanas ietvaru analīzi gan lielajiem, gan arī mazajiem un vidējiem uzņēmumiem var secināt, ka to snieguma evolūcijā novērojama virzība uz finanšu un nefinanšu snieguma perspektīvu apvienošanu.

Atslēgas vārdi: *ietvars, vadīšana, mērīšana, sniegums.*

RISKS AFFECTING CITY ATTRACTIVENESS

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Abstract. *The competition among cities contributes to raising new strategic targets; in any case the most important is to provide your city with the necessary human resources – independent people, investors / entrepreneurs and guests/ tourists. As a result, each municipality must take into account many factors in order to avoid cause havoc. The potential risks must be taken into account.*

The risk management process in the context of attractiveness of the city is a relatively little-studied issue. The paper aims to assess the risks that influence attractiveness of a city and determine their ranking according to the city's attractiveness criteria. The paper is focused on the risk analysis phase, based on attractiveness of a city as the city's strategic goal. The risks were grouped into eleven city attractiveness criteria. An expert survey was carried out, resulting in the risk set for each rank within single criteria. The obtained expert survey data will be used in municipalities during the planning work, because it will give the opportunity to be aware of the major risks, the consequences which may affect city attractiveness.

Keywords: *city attractiveness, risk analyses, risk management*

JEL code: *H75, O18, P25, R1, R58*

Introduction

Decision-making is an integral part of management, because constantly among different variants the best one must be chosen which is characterized as a greater benefit and / or a smaller loss. In other words, possible risks must be taken into account – potential losses or gains, probability. As a result, the decision-making process becomes a risk management process. The risk identification and analysis process can significantly help in making numerous decisions of various levels of management, in the result of which potential risks, their probability and consequences are known.

Risk classification is available for businesses. The influence of globalization and mobility lead to the increasing competition among cities where the main object of the competition is the man in different capacities – as a resident, investor or a tourist. Thus, each city has one major goal – to become attractive to live, build a business or go on an excursion there. For the city management it is necessary to take appropriate decisions in order to promote attractiveness of the territory. Also, in this case the decisions are associated with the risks that are needed to be taken into account.

The aim of this paper is to assess the risks that influence city attractiveness and determine their ranking according to the city attractiveness criteria.

The implemented tasks to achieve the aim:

- Theoretical aspects of risk management were researched;
- A survey of experts was carried out;
- On the basis of the expert survey, the assessment of risk materiality was carried out.

The hypothesis of the paper is: the main risks are objective risks.

Data acquisition and processing methods were used in the research study: synthesis and analysis, the monographic method, an expert survey, concordance coefficient calculation.

The main sources are Schneier, 2000; Rejda, 2014; Williams, 2004; J.Wm. Kallman and R. V. Maric 2004.

Theoretical aspects of risk management process

In substance, risk management contributes to safety; internationally renowned security technologist B. Schneier's citation is: "Security is a process, not a product" (Schneier, 2000). Consequently, risk management is perceived as a continuous and planned process. In the risk management theory many authors (G. C. A. Dickson (1995), G. E. Rejda (Rejda, 2014), L.Williams (Williams, 2004)) have studied the risk management process determining from three up to seven process steps providing risk identification, assessment, mitigation and control.

The increasing role of risk management has changed the risk management process, it becomes wider, providing more serious work at every stage of the process and becoming a major support to the decision-making process. Americans J. Wm. Kallman and R. V. Maric (2004) offer a new risk management paradigm. It consists of five steps and each step consists of three stages (Fig.1).

The first step of risk management process is programme development, which means that the risk management process is planned and organized. Developed by the risk management process, the plan facilitates the decision-making process, defines managers' responsibilities and helps them to assess the potential risks.

Within the framework of risk analysis, risks are identified, measured and assessed. Business-related risk identification and grouping process is relatively easier, as a risk management manual is worked out, which facilitates risk analysis for entrepreneurs.

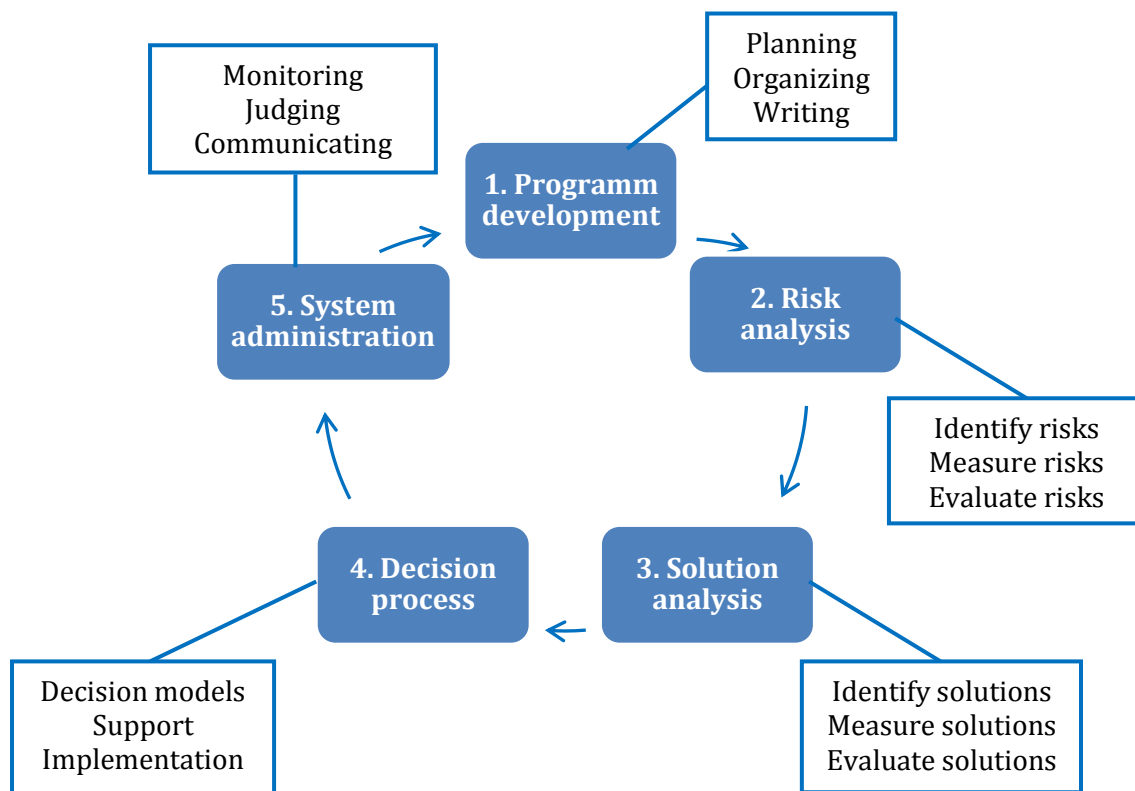


Fig.1 The process of the new risk management
(Source: compiled by the author, based on Kallman, 2004)

The next step in the process of risk management is associated with the corresponding solutions and awareness of risk management, assessing both the qualitative and quantitative impact of the risk on each solution.

A decision process, according to J. Wm. Kallman and R. V. Maric, in the risk management process, is a relatively new phase, which requires not only the financial impact of the risk solution but also the ethical impact of the solution is evaluated. The necessary human and financial resources and time needed must be identified for the solution (Kallman, 2004).

A system administration phase solution provides the assessment of the risk solution effectiveness and their impact on achievement of the objectives.

Based on this risk management process, the author focuses on the risk analysis phase. To search for appropriate solutions and facilitate the risk management process of the city administration, it is necessary to be aware of potential risks. The city, as well as companies is exposed to many different risks. Therefore, the author of this paper takes into account both her research and the project “linguoculturological and socioeconomic territorial identity”.

Study design

The city is affected by many risks. In her study, the author, as the city's strategic goal, has selected the city's attraction. In order to facilitate the risk identification and grouping, the author studies the twelve criteria of the city's attractiveness developed under the project "Linguoculturological aspects of territorial identity and socio-economic development of the region of Latgale". However, in this research study, the author used only eleven criteria: accessibility and mobility, quality of health services, availability and accessibility, quality of social care service, accessibility, quality and distribution of culture, quality of sports and recreation service, availability and accessibility, ecological quality, participation, diversity of community life, quality of services provided by national and municipal administrations, availability and accessibility, commerce and service quality, availability and accessibility, affordability and quality of housing, quality of physical security and accessibility. The criterion "economic development, employment and material well-being of the population" was not used in the research study because of the associated risks which are investigated separately.

Initially, potential risks were identified for each of the eleven criteria. Their number is different for each criterion.

7 academics with practical experience from Latvia and Poland have been invited as experts.

An expert consistency examination of each criterion was carried out calculating the concordance coefficient W (Formula 1, Formula 2 and Formula 3).

$$W = \frac{12 * S}{m^2 * (n^3 - n)} \quad (1.)$$

$$S = \sum_{i=1}^n (R_i - \bar{R})^2 \quad (2.)$$

$$\bar{R} = \frac{1}{2} * m * (n + 1) \quad (3.)$$

W – concordance coefficient

S – sum of quadratic deviations

\bar{R} – average

R_{i-i} – its object-rating

m – appraisers

n – objects

The concordance coefficient may be within the range $0 \leq W \leq 1$. $W = 1$ is full coherence. $W = 0$ means complete disagreement.

If the resulting concordance coefficient is $0 < W < 1$, then, using the Pearson chi-square (χ^2) (Formula 4), the null hypothesis (H_0) is tested.

H₀: expert opinions are independent
H₁: expert opinions are not independent

$$\chi^2 = \sum_{j=1}^n \frac{(x_{emp.} - x_{teor.})^2}{x_{teor.}} \quad (4.)$$

x_{emp.} – empirical distribution of the frequency range or in a group
x_{teor.} – signs of a theoretical distribution frequency range or a group
x² distribution tables of critical values are in accordance with the significance level α (0.05) and the degrees of freedom (ν = (n-1) (m-1)).

The null hypothesis (H₀) is confirmed when the x_{emp.} < x_{teor.}... If x_{emp.} > x_{teor.} Then the alternative hypothesis (H₁) is accepted.

Based on its findings, a definite rank within a single criterion was assigned to each risk.

Results of the survey of experts

Calculations were made and the results obtained according to the study design.

Table 1 Criterion 1 “Accessibility and Mobility”
(Source: author’s calculations based on the survey of experts)

| Risks | Score* | Rank |
|--|--------|------|
| Road surface quality in the city (urban road infrastructure) | 15 | 1 |
| The time spent on getting from the city to other cities in the region, the capital city, airport, etc. | 17 | 2 |
| Urban road structure (streets, pavement location, comfort access within the city) | 35 | 3 |
| Public transport diversity of getting to / from the city / s | 36 | 4 |
| Public transport routes from / to the city / s | 38 | 5 |
| Quality of public transport | 40 | 6 |
| Public transportation cruising frequency of getting to / from the city | 41 | 7 |
| Number of parking spaces in the city | 42 | 8 |
| Total level of satisfaction of population with the city’s accessibility and mobility | 51 | 9 |
| Total: | 315 | X |

*Sum of experts score

Table 1 shows that the estimated concordance coefficient W = 0.37 is in the proposed range of 0 <W> 1, which shows the coherence of expert opinions and indicates the degree of coherence of views. The null hypothesis (H₀) is accepted because x_{emp.} = 53.46 and x_{teor.} = 65.2.

The performance rank confirms that the greatest risk associated with the city's attractiveness quality is connected with the road surface and road structures within the city, as well as with the time needed to get to / from the city. The visual appearance of the city is important for the city residents, tourists / visitors and entrepreneurs / investors, as it measures the degree of attractiveness in a direct way. Globalization has also expanded the understanding of the reach and uses the measure of time but not the distance. Expert ratings confirm the importance of this venture. The distance from one city to another may be measured in hundreds of kilometres, but it is important how much time it takes to cover this distance. For each city user group, that risk impact and importance varies but generally reduces the interest in the city. The damage caused by this risk:

- the city is selected as a tourist object, if it has an advantageous location, or good access;
- investors choose the city where one can easily and quickly get to saving time spent on the way;
- population in particular is not growing as a result of immigration.

Table 2 Criterion 2 "Quality of health care, availability and accessibility"
(Source: author's calculations based on the survey of experts)

| Risks | Score | Rank |
|---|-------|------|
| Presence of outpatient medical facilities in the city | 16 | 1 |
| Number of medical specialists in the city | 17 | 2 |
| Population satisfaction with the availability of medical services in the city | 22 | 3 |
| Medical service prices and their adequacy to the purchasing power of the population | 26 | 4 |
| Population satisfaction with the quality of medical services in the city | 31 | 5 |
| Number of beds in the hospital | 35 | 6 |
| Total | 147 | X |

Table 2 indicates that the estimated concordance coefficient $W = 0.34$ is in the proposed range of $0 < W < 1$, which shows coherence of experts' opinions and points the degree of coherence of views $x_{emp.} = 25.81$ and $x_{teor.} = 43.8$, it means that the null hypothesis is accepted (H_0).

In health care, the highest risk refers to the outpatient medical facilities and lack of health professionals in the city. These risks are attributable to medical care accessibility.

The occurrence of these risks affects attractiveness of a city considerably; however, it should be taken into account that health care is a public responsibility. Currently, there are a lot of unresolved issues in this area which significantly affect medical professionals' choice to work outside the capital city or the country.

Table 3 Criterion 3 "Social care quality and availability"
(Source: author's calculations based on the survey of experts)

| Risks | Score | Rank |
|--|-------|------|
| Amount of social care budget in the city | 10 | 1 |
| Types of social care services in the city | 17 | 2 |
| Availability of social care services in the city | 26 | 3 |
| Risk of population growth that need social care services | 29 | 4 |
| Number of social workers in social care institutions | 34 | 5 |
| Population satisfaction with the quality of social services in the city | 37 | 6 |
| Population satisfaction with the availability of social services in the city | 43 | 7 |
| Total | 196 | X |

Table 3 indicates that the estimated concordance coefficient $W = 0.58$ is in the proposed range of $0 < W < 1$, which shows coherence of experts' opinions and points the degree of coherence of views. $x_{emp.} = 20.73$ and $x_{teor.} = 51.0$, it means that the null hypothesis is accepted (H_0).

In social care services, as the key risks, experts consider the social care budget and the types of services. The city, which is able to support its population, is considered to be much more attractive. However, the quality of social care services and their availability is a dual-evaluated question in the context of the issue of attractiveness. The Social Services and Social Assistance Law (effective from 01.01.2003) determines the types of services that should be ensured by the municipality, but the quality of services largely depends on the budget of the available financial resources. But the relatively high demand for social care services showed negative trends in the municipality. For example, the increasing demand for heating benefits by retirement age people shows that the number of population of retirement age is growing, compared with the number of population of working age.

Table 4 indicates that the estimated concordance coefficient $W = 0.43$ is in the proposed range of $0 < W < 1$, which shows coherence of experts' opinions and points the degree of coherence of views. $x_{emp.} = 44.25$ and $x_{teor.} = 58.1$, it means that the null hypothesis is accepted (H_0).

Table 4 Criterion 4 “Education service quality and availability”
(Source: author’s calculations based on the survey of experts)

| Risks | Score | Rank |
|---|-------|------|
| Availability of preschools | 17 | 1 |
| Education diversity in the city | 21 | 2 |
| Diversity of out-of-school/ adult education in the city | 24 | 3 |
| Quality of out-of-school/ adult education in the city | 29 | 4 |
| Qualification of city educational employees | 30 | 5 |
| Prices of out-of-school/ adult education | 38 | 6 |
| Population satisfaction with the quality of education and education of interests in the city | 46 | 7 |
| Population satisfaction with the availability of education and out-of-school/ adult education in the city | 47 | 8 |
| Total | 252 | X |

In educational services, according to the experts’ assessment, the highest risk is related to availability of pre-school education in the city. At the end of parental leave, parents have an urgent problem to choose – to return to work or lose their jobs and continue to look after the child. And the diversity of education and out-of-school/ adult education means the development of lifelong learning.

Table 5 Criterion 5 “Culture, sports and leisure service quality, availability and accessibility”
(Source: author’s calculations based on the survey of experts)

| Risks | Score | Rank |
|--|-------|------|
| Diversity of cultural / sports events in the city | 23 | 1 |
| Suitable space / place for organizing events in the city | 24 | 2 |
| Leisure options in the city | 25 | 3 |
| Fee for attending cultural events | 26 | 4/5 |
| Compliance of proposed cultural / sporting services with the interests of the population of the city / ethnicity / etc | 26 | 4/5 |
| Number and diversity of amateur groups in the city | 34 | 6 |
| Population satisfaction with cultural, sports and recreational facilities in the city | 38 | 7 |
| Total | 196 | X |

Table 5 indicates that the estimated concordance coefficient $W = 0.15$ is in the proposed range of $0 < W < 1$, which shows coherence of expert’s opinions and points the degree of coherence of views. $x_{emp.} = 42.9$ and $x_{teor.} = 51.0$, it means that the null hypothesis is accepted (H_0).

Attractiveness and availability of recreational facilities in the city is no less important as job opportunities. According to the experts, there must be diversity of cultural/ sports events and appropriate infrastructure in the city. Assessment of the scores shows that, according to the experts, financial and quality aspects are no less important.

Table 6 Criterion 6 “Ecological quality”
(Source: author’s calculations based on the survey of experts)

| Risks | Score | Rank |
|--|-------|------|
| Drinking water quality in the city | 15 | 1 |
| Air quality in the city | 16 | 2 |
| Existence and quality of bathing areas in the city | 25 | 3 |
| Population satisfaction with the quality of the air in the city | 30 | 4 |
| Population satisfaction with the quality of drinking water in the city | 31 | 5 |
| Population satisfaction with waste management in the city | 38 | 6 |
| Population satisfaction with the quality of bathing areas in the city | 41 | 7 |
| Total | 196 | X |

Table 6 indicates that the estimated concordance coefficient $W = 0.44$ is in the proposed range of $0 < W < 1$, which shows coherence of expert’s opinions and points the degree of coherence of views. $x_{emp.} = 34.17$ and $x_{teor.} = 51.0$, it means that the null hypothesis is accepted (H_0).

City attractiveness can be significantly affected by drinking water and air quality. The relatively lower risk is related to existence and quality of bathing areas which are affected by seasonality and mobility.

Table 7 Criterion 7 “Participation, diversity of community life”
(Source: author’s calculations based on the survey of experts)

| Risks | Score | Rank |
|---|-------|-------|
| Relationship between the municipality and city residents / businesses | 16 | 1 |
| Access to information about opportunities to participate in social / non-governmental organizations in the city | 17 | 2 |
| Access to information on public consultations in the city | 23 | 3 / 4 |
| Level of activity of population involved in the community life | 23 | 3 / 4 |
| Level of satisfaction of population with the opportunity to participate in community life | 26 | 5 |
| Total | 105 | X |

Table 7 indicates that the estimated concordance coefficient $W = 0.15$ is in the proposed range of $0 < W < 1$, which shows coherence of experts' opinions and points the degree of coherence of views. $x_{emp.} = 20.29$ and $x_{teor.} = 36.4$, it means that the null hypothesis is accepted (H_0).

The experts' degree of coherence is relatively lower in the assessment of risks related to these criteria. However, the highest rank involves a relation between the city administration and its users. The municipality's economic, political, etc. activities are focused on urban users, their interests and democracy.

Table 8 Criterion 8 "Quality and availability of administrative services provided by the national and local governments"

(Source: author's calculations based on the survey of experts)

| Risks | Score | Rank |
|--|-------|------|
| Availability of state provided services in the city | 13 | 1 |
| Availability of municipality provided services in the city | 16 | 2 |
| Quality of state services provided in the city | 19 | 3 |
| Quality of municipality services provided in the city | 22 | 4 |
| Population satisfaction with state provided services in the city | 38 | 5 |
| Population satisfaction with services provided by municipality in the city | 39 | 6 |
| Total | 147 | X |

Table 9 indicates that the estimated concordance coefficient $W = 0.74$ is in the proposed range of $0 < W < 1$, which shows coherence of experts' opinions and points the degree of coherence of views. $x_{emp.} = 12.45$ and $x_{teor.} = 43.8$, it means that the null hypothesis is accepted (H_0).

According to the experts' assessment, the key risks are associated with the availability of services. It means that the accessibility of government services has a positive impact on the attractiveness of the city.

Table 9 indicates that the estimated concordance coefficient $W = 0.45$ is in the proposed range of $0 < W < 1$, which shows coherence of experts' opinions and points the degree of coherence of views. $x_{emp.} = 40.78$ and $x_{teor.} = 58.10$, it means that the null hypothesis is accepted (H_0).

The diversity of available services impacts the city's attractiveness significantly, because it directly affects the quality of life. Despite the extensive web capabilities and e-commerce development, it is important that the city's residents can get the necessary services.

Table 9 Criterion 9 “Trade and service quality, availability and accessibility”

(Source: author’s calculations based on the survey of experts)

| Risks | Score | Rank |
|---|-------|------|
| Variety of services available in the city | 17 | 1 |
| Diversity of trade institutions in the city | 19 | 2 |
| Quality of trade institutions in the city | 24 | 3 |
| Quality of services available in the city | 26 | 4 |
| Population satisfaction with the quality of trade institutions in the city | 36 | 5 |
| Population satisfaction with the quality of services in the city | 39 | 6 |
| Population satisfaction with the availability of trade institutions in the city | 43 | 7 |
| Population satisfaction with the availability of services in the city | 48 | 8 |
| Total | 252 | X |

Table 10 Criterion 10 “Housing availability and quality”

(Source: author’s calculations based on the survey of experts)

| Risks | Score | Rank |
|--|-------|------|
| Housing availability in the city | 9 | 1 |
| Quality of housing in the city | 14 | 2 |
| Population satisfaction with the availability of housing in the city | 21 | 3 |
| Population satisfaction with the quality of housing in the city | 26 | 4 |
| Total | 70 | X |

Table 10 indicates that the estimated concordance coefficient $W = 0.69$ is in the proposed range of $0 < W < 1$, which shows coherence of experts’ opinions and points the degree of coherence of views. $x_{emp.} = 4.83$ and $x_{teor.} = 28.90$, it means that the null hypothesis is accepted (H_0).

The experts believe that the availability of housing is a major risk in accordance with the city’s attractiveness 10th criterion. Housing can be explained by the availability of new housing constructions, which in turn indirectly characterizes the socio-economic situation in the city.

Table 11 indicates that the estimated concordance coefficient $W = 0.42$ is in the proposed range of $0 < W < 1$, which shows coherence of experts’ opinions and points the degree of coherence of views $x_{emp.} = 33.44$ and $x_{teor.} = 51.0$, it means that the null hypothesis is accepted (H_0).

Table 11 Criterion 11 “Physical security quality and availability”
 (Source: author’s calculations based on the survey of experts)

| Risks | Score | Rank |
|---|-------|------|
| The crime rate in the city | 15 | 1 |
| Number of the State police staff in the city | 20 | 2 |
| Presence of the Municipal Police in the city | 22 | 3 |
| Presence of Rescue services in the city | 29 | 4 |
| Level of satisfaction of population with safety in the city | 32 | 5 |
| Level of satisfaction of population with the police performance quality | 34 | 6 |
| Level of satisfaction of population with the quality of rescue services | 44 | 7 |
| Total | 196 | X |

According to Maslow's hierarchy (Maslow, 1943) of needs, safety is the next group after physiological needs. According to the experts, just the level of crime is the greatest risk for attractiveness of cities and if there is no adequate number of national and municipal police, the crime rates may be relatively higher.

The obtained results of the survey of experts show the most important risks which should be taken into account according to each city's attractiveness criterion. The highest performance rank indicates the significance of the risk and the need to pay serious attention to it. For each criterion, both objective and subjective criteria were mentioned as the potential risks. The experts consider the risks that characterize a subjective opinion to be less risky than the risks that characterize an objective situation. Despite the fact that local governments compete with each other, the services provided are defined in legal documents, the possibilities of which are largely dependent on the geographical location, which is not possible to change and so on. Therefore it is essential for local authorities to pay attention to certain risk mitigation, which in the long-term enables the possibility to avoid negative socio-economic trends (e.g. population migration, high unemployment, etc.).

Despite the fact that H_0 was confirmed in all cases, the author believes that the risks assessment of the 5th and 7th criteria could be repeated, because the coefficient of the expert assessment coherence is relatively low (see Table 12).

Table 12 Expert evaluation of survey results

| Criterion name | Coherence coefficient | Number of risks |
|--|-----------------------|-----------------|
| Criterion 8 "The quality and availability of administrative services provided by the national and local governments" | W=0.74 | 6 |
| Criterion 10 "Housing availability and quality" | W=0.69 | 4 |
| Criterion 3 "Social care quality and availability" | W=0.58 | 7 |
| Criterion 9 "Trade and service quality, availability and accessibility" | W=0.45 | 8 |
| Criterion 6 "Ecological quality" | W=0.44 | 7 |
| Criterion 4 "Education service quality and availability" | W=0.43 | 8 |
| Criterion 11 "Physical security quality and availability" | W=0.42 | 7 |
| Criterion 1 "Accessibility and Mobility" | W=0.37 | 9 |
| Criterion 2 "Quality of health care, availability and accessibility" | W=0.34 | 6 |
| Criterion 5 "Culture, sports and leisure service quality, availability and accessibility" | W=0.15 | 7 |
| Criterion 7 "Participation, diversity of community life" | W=0.15 | 5 |

Conclusions and suggestions

The municipality can use the proposed risks classification according to each criterion in order to achieve the strategic development aim – city attractiveness. Risk ranks within each criterion are used as guidance on the risks which governments should pay special attention to because their effects are significant for achieving the strategic goal – to achieve city attractiveness.

The hypothesis of the paper is: the main risks are objective risks – verified.

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PILSĒTAS PIEVILCĪBU IETEKMĒJOŠIE RISKI

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Kopsavilkums

Pilsētu savstarpējā konkurence veicina arvien jaunu stratēģisko mērķu izvirzīšanu, idejiski apzinoties, ka jebkurā gadījumā svarīgākais ir nodrošināt savu pilsētu ar nepieciešamajiem cilvēkresursiem – patstāvīgajiem iedzīvotājiem, investoriem/uzņēmējiem un viesiem/ tūristiem. Rezultātā katrai pašvaldībai ir jāņem vērā daudzi faktori, lai pieņemtie lēmumi neradītu postošas sekas. Ir jāapzinās iespējamie riski.

Lēmumu pieņemšana ir neatņemama menedžmenta sastāvdaļa, jo nepārtraukti ir jāizvēlas starp dažādām alternatīvām labākā, kas raksturojas kā lielāks ieguvums un/vai mazāks zaudējums. Citiem vārdiem sakot, jāapzinās iespējami riski – iespējamie zaudējumi vai ieguvumi, iestāšanās varbūtība. Rezultātā lēmumu pieņemšanas process kļūst par risku vadīšanas procesu. Daudzo lēmumu pieņemšanā dažāda līmeņa vadītājiem ievērojami var palīdzēt risku identifikācijas un analīzes process, kura rezultātā ir zināmi iespējamie riski, to iestāšanās varbūtības un sekas.

Pieejamās risku klasifikācijas ir paredzētas uzņēmumiem. Globalizācijas un mobilitātes ietekmē arvien vairāk palielinās konkurence starp pilsētām, kur galvenais konkurences objekts ir cilvēks dažādos statusos – kā iedzīvotājs, investors vai tūrists. Līdz ar to, katrai pilsētai ir viens būtisks mērķis – kļūt pievilcīgai, lai tur vēlētos dzīvot, veidot uzņēmumu vai doties uz turieni ekskursijā. Pilsētvaldībai ir nepieciešams pieņemt atbilstošus lēmumus, lai veicinātu teritorijas pievilcību. Arī šajā gadījumā pieņemamie lēmumi ir saistīti ar riskiem, kurus nepieciešams ņemt vērā un apzināties to nozīmīgumu.

Risku vadības process pilsētas pievilcības kontekstā ir salīdzinoši maz pētīts jautājums. Raksta mērķis ir izvērtēt pilsētas pievilcību ietekmējošos riskus un noteikt to rangu atbilstoši pilsētas pievilcības kritērijiem. Mērķa sasniegšanai īstenotie uzdevumi:

- veikta risku vadības teorētisko aspektu izpēte;
- veikta ekspertu aptauja;
- pamatojoties uz ekspertu aptaujas datiem, veikta risku būtiskuma izvērtēšana.

Pētījumā izmantotās datu ieguves un apstrādes metodes: sintēzes un analīzes, monogrāfiskā metode, ekspertu aptauja, konkordances koeficienta aprēķins.

Rakstā uzmanība tika veltīta risku analīzes posmam, pamatojoties uz pilsētas pievilcību kā pilsētas stratēģisko mērķi. Riski tika sagrupēti vienpadsmit pilsētas pievilcības kritērijos. Tika veikta ekspertu aptauja, kuras rezultātā noteikts katra riska rangs viena kritērija ietvaros. Iegūtie ekspertu aptaujas dati ir izmantojami pašvaldībās, veicot plānošanas darbus, jo tas dos iespēju apzināties būtiskākos riskus, kuru sekas var ietekmēt pilsētas pievilcību.

Atslēgas vārdi: *pilsētas pievilcība, risku analīze, risku vadība.*

EXTERNAL BUSINESS ENVIRONMENT PROBLEMS AND OPPORTUNITIES IN REZEKNE CITY

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Abstract. *Entrepreneurship is an essential driving force for the social and economic development of any city. Well-arranged external environment is a fundamental prerequisite in order to motivate local entrepreneurs and to attract investors for establishing new businesses and development of the existing ones. An important role in the development of the external business environment is played by the political position of the local government and the process regulations at the city. The paper aims to carry out the assessment of the external business environment factors and their impact in Rezekne City. The external business environment analysis was performed using PESTEL analysis method; the document "Analysis of the Current Situation" elaborated for Rezekne City in 2014 was used as the base for the current research. The external business environment was evaluated based on six factors: political factors, economic conditions, sociocultural forces, technological factors, environmental factors, and legal/regulatory conditions. Results of the research indicate that the development priorities are defined in Rezekne; the appropriate measures are being performed to achieve the objectives. Overall, it enables entrepreneurs to plan their activities.*

Keywords: *business environment, macro environment, entrepreneurship, Rezekne City.*

JEL code: *E00, M2, R1, R5*

Introduction

Entrepreneurship is an essential prerequisite for successful development of the territory, as it encourages investments, creates jobs, taxes and fees are transferred into the local budget, the business environment is developed, the social situation improves. However, overall business development varies in different cities. It is influenced by the specific geographical location, particular legal regulations, socio-economic and demographic situation, and other factors. All of the above mentioned factors create the so-called external business environment.

Rezekne is situated in Latgale region, which has one of the lowest development indices among all regions of Latvia. Promoting entrepreneurship is a tool to improve the socio-economic situation in the city. Therefore, it is necessary to evaluate the current business environment in order to identify gaps to assist in finding appropriate solutions to eliminate them.

The paper aims to perform an assessment of the external business environment factors in Rezekne and their impact.

To achieve the objective, the following tasks are set forth:

- Research of the theoretical aspects of external business environment;
- Research of the external business environment in Rezekne;
- Elaboration of conclusions and recommendations.

Hypothesis: Rezekne has been put into the business external environment.

Data collection and analysis methods used in the research: logical construction, synthesis and analysis, monographic, document analysis, PESTEL analysis.

Research base: the document "Analysis of the Current Situation" developed by Rezekne City (2014) (hereinafter – *the Document*).

The analysis of Rezekne external business environment in the above-mentioned aspect for a given period and by use of the relevant research methods have not been carried out so far, which shall be considered as a novelty of the research.

Research results

Operations of each company are affected by the environment where these operations are performed. A.Vedļa points out that, if the term "environment" is used to define a set of surrounding circumstances enclosing a living or a public body, subsequently, the "business environment" is an objective reality, i.e. economic, legal, administrative, ecological, demographic and other settings and actual existence of the processes that are independent from the will of individuals; a set of active economic subjects, objects, processes and powers (Vedļa, 2000). V.Abizāre defines the business environment as a set of objective and subjective factors affecting the business situation within a specified time period. The business environment can be divided into micro and macro environment. Business microenvironment is the company's internal environment established by the company itself, where certain business decisions are made. This environment relatively can be divided in two levels: internal microenvironment and external microenvironment. The internal microenvironment is determined by the corporate objectives (strategy, routine tasks), employees (their knowledge, skills, perceptions, abilities), the organizational structure (division of labour, structural units, division of functions and their performance), technologies (use of equipment, information systems), organizational culture and the management style. The company's external microenvironment consists of suppliers, competitors, consumers, and target audiences. Business

macro-environment is the company's external environment indirectly affecting the business decision-making and effectiveness of the business performance. Macro environment is formed by the following main factors: economic situation in a country, public policy, social, cultural and demographic factors, scientific and technical progress, international relations, institutional and informative environments (Abizāre, 2004).

The macro environment, in which a firm or sector operates, influences its performance, and the amount of that influence depends on what share of the sector's business are dependent on the health of the overall economy (Itani, O'Connell, Mason, 2014). Favourable business environment is characterized by the following features: structured and stable business legislation, a stable macroeconomic situation, efficiency of the tax system, international competitiveness, effective functioning of capital and financial markets, developed infrastructure, an effective education and innovation system, favourable conditions for competition, efficiency of the state aid system (Abizāre, 2004).

SMEs play dominant roles in terms of employment generation and economic development, in this regard the effects of globalization on them and their prosperity in a new business environment created by globalization is of a particular importance to both developing and developed economies (Savrul, Incekara, Sener, 2014). Assessing the situation in the international context, the small and medium enterprise development is positively affected by the factors as the ease of entry, the effectiveness of credit information sharing and the sophistication and innovation of the business environment (Rocha, 2012).

For the businesses that want to succeed in the global competition, the key factors are knowledge and ability to make the best use of the knowledge (Marešová, Drahekoupil, 2011). Living at the time that is declared to be the information age, it is important to create the business environment that is able to grow and develop as fast as modern information technologies do, thus creating innovative and competitive environment that will ensure sustainable national and economic development in Latvia. An adequately structured business environment that is favourable to the new entrepreneurs is one of the most important elements to increase competitiveness of the national economy (Uzņēmējdarbības vide un tās..., 2013).

Favourable business climate is not only a very important issue but one could say that it is even a principal one, especially in the modern marketplace. Targeted improvement of the business environment serves the interest of the whole society because it is reflected in many areas. This is not just about economic growth or prosperity but favourable business environment has a significant impact on employment, where the

business sector has become a key factor, innovation, the state budget and last but not least it affects the external economic balance as well (Hamplová, Provazníkov, 2014; Marešová, 2010).

Up to now, the most widely used tool for the assessment of the business environment in Latvia is the World Bank international study Doing Business. Among 189 world countries, Latvia ranks the 24th, and the 9th among the EU countries (Doing Business, 2014). Concurrently, the other tool that allows to assess the business situation in Latvia qualitatively and quantitatively is the Survey of Entrepreneurs on the impact of administrative procedures on the business environment carried out by the Ministry of Economics every two years. According to the results of 2014, Latvian entrepreneurs spend on average 13% of their working time dealing with the issues related to administrative requirements. While evaluating the ease of running business, the problems related with starting up businesses, taxes (accounting), and solutions of commercial disputes have been identified in the survey (Par Uzņēmējdarbības vides..., 2014).

In the “Action Plan to Improve the Business Environment for 2014-2015”, the aim “simple and qualitative services in business: more e-services” is defined and the measures to be taken are included, which are identified as burdensome to the entrepreneurs in the areas of establishing businesses, tax administration, real estate registration, foreign trade, e-government, improvement of the legal regulation in the construction sector, and others.

The local government, or better known as the local authority, vested with the power to plan, develop, and regulate businesses in the area within its jurisdiction, plays a significant role in creating a favourable environment for businesses to grow and flourish. In playing this role, employees in the local authority must possess a certain degree of innovative work behaviour (Yunus, Bustaman, Rashdi, 2014). The analysis of the external business environment in Rezekne City was performed based on the Document available on the municipal website. The positive and negative aspects of the external business environment in Rezekne have been evaluated in the Document. The macro environment encompasses the broad environmental context in which a company is situated and is comprised of six principal components: political factors, economic conditions, sociocultural forces, technological factors, environmental factors, and legal/regulatory conditions (Gamble, 2014). (See Fig.1)

The external business environment determines each city development possibilities; changes in one of the external environment factors result in consequential changes in others.

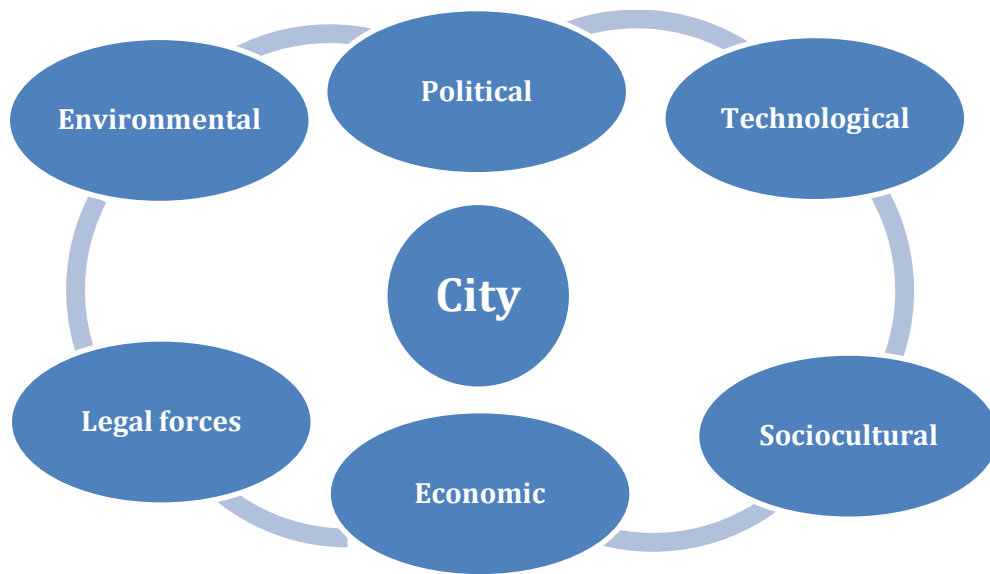


Fig.1 The components of City's External Environment
(Compiled by the authors, based on: Gamble, 2014)

The PESTEL analysis was used to evaluate the business environment. This method of analysis can be used to assess the strategic relevance of the six principal components of the macro-environment: political, economic, sociocultural, technological, environmental, and legal forces (Gamble, 2014).

In the research, the external business environment factors were evaluated on the scale of the city and not at the national level.

The authors have carried out grouping of the external environmental factors in accordance with PESTEL criteria, still emphasizing specifically the positive and negative aspects of the business environment. (See Table 1)

The Document analysis indicates that, in Rezekne, there is a relatively large number of positive aspects affecting the external business environment. The authors consider that each entrepreneur aspires for the so-called sense of security that may result from the availability of information. In Rezekne, the Sustainable Development Strategy of Rezekne for 2013-2030 and the Development Programme of Rezekne for 2014-2020 are elaborated. Planning their activities, the entrepreneurs should familiarise themselves with the documents referred to above, as they provide ideas on the city's development.

Table 1. Evaluation of the External Business Environment of Rezekne City in 2014, based on the Document
(Source: compiled by the authors, based on "Rēzeknes pilsētas...", 2014)

| Positive aspects | P* | E* | S* | T* | E* | L* |
|---|----|----|----|----|----|----|
| Geographic location, multifunctional transport hub | | X | | X | | |
| The second largest population density among Latvian cities | | | X | | | |
| Largest share of net turnover of the companies in sectors of manufacturing, forestry, and agriculture; the most popular sector of the registered enterprises – cargo transportation | | X | | | | |
| The 4 th best result regarding the number of economically active merchants and commercial companies per 1 000 inhabitants after Riga, Valmiera, and Jurmala | | X | | | | |
| Increased total investment of the commercial companies in the Rezekne Special Economic Zone | | X | | | | |
| Emphasis on the development of tourism and services related to this sector; increased number of tourists | X | X | X | | | X |
| Operation of business support organizations in the city: the Rezekne Special Economic Zone, the Employers' Confederation of Latvia, Rezekne department of the Latvian Chamber of Commerce and Industry, Business incubator "Ideju viesnīca", association "Latgale machinery technology centre" (LATC) | | X | | X | | X |
| Emphasis on the infrastructure of cycling, air transportation; development of optical network availability and its speed | X | | | X | | |
| Emphasis on provision of high quality services of water supply, sewerage, waste collection, and continuous supplies of various categories of energy | X | | | X | X | |
| Emphasis on maintenance and development of "green areas", restoration of degraded industrial sites, inclusion of unused areas into circulation | X | X | | X | X | |
| Bathing water and air quality monitoring, noise control, hazardous waste management control | X | | | X | X | X |
| Educational opportunities in the city; emphasis on cooperation in the education sector, local government and employers in development of education programmes to meet labour market needs | | X | X | X | | X |
| Gradual decrease of payments of social allowances | X | X | X | | | |
| Promotion of disease prevention and reduction of health risk factors | | | X | | | |
| All sectors of culture and arts are represented and develop in the city | X | | X | | | |
| Emphasis on youth policy | X | | X | | | |

| | | | | | | |
|--|----------|----------|----------|----------|----------|----------|
| Cooperation agreements concluded between the city council and the CIS and the EU municipalities; cooperation with other municipalities of Latgale region | X | | | | | X |
| Concerns over the maintenance of public order (CCTV cameras) | X | | | X | | X |
| Negative aspects | P | E | S | T | E | L |
| The distance to the capital city is 242 km | | X | | | | |
| Decrease of the total number of population, including the working age population; increase of the population over the working age; a higher proportion of women | | | X | | | |
| The largest number of employees in the service sector, the lowest – in the manufacturing sector | | X | | | | |
| Decreased average net monthly wage in the public sector; lower wages compared to the national average | | X | X | | | |
| Relatively high level of unemployment; long-term unemployment problem; high number of unemployed in the economically most active age between 25 and 49 years; skills of job seekers do not meet the demands of employers; insufficient number of qualified young professionals, and insufficient wages | X | X | X | | | |
| Relatively small proportion of large enterprises; a relatively large number of commercial companies active in the retail and wholesale business | | X | | | | |
| Decreased non-financial investment of Rezekne companies | | X | | | | |
| Offer by the hotels does not allow to increase the number of tourists, visitors and participants of the events; poor technical conditions and visual unattractiveness of many cultural objects; lack of knowledge, skills and competence in the management of cultural heritage | | X | X | X | | |
| Poor quality of transport infrastructure; poor engineering infrastructure in the territory of the Rezekne Special Economic Zone | X | | | X | | |
| Insufficient investment in the sector of energy supplies to significantly improve the overall lighting system in the city; high depreciation of the heating infrastructure; slow process of renovation of buildings to improve energy efficiency | X | | | X | X | |
| Low activity in the construction sector | | X | | | | |
| Increased concentration of pollution observed seasonally | | | | | X | |
| Lack of a modern athletics stadium or arena to be able to properly train and organize national sporting competitions | | | X | X | | |

*P Political factors; *E Economic conditions; *S Sociocultural forces; *T Technological factors; *E Environmental forces; *L Legal and regulatory factors

Taking into account the socio-economic situation in the city, it has to be concluded that the negative aspects of the external business environment exist as well, significantly affecting the business development. According to the authors, the distance to Riga, to the airport and other strategic business sites do not provide for adequate business development in Rezekne.

Then, the authors have carried out the assessment of the external business environment factors in accordance with six PESTEL factors.

Political factors include political policies and processes, including the extent to which a government intervenes in the economy (Gamble, 2014). According to the authors, evaluating the external business environment in the city, it is necessary to take into account the strategic development priorities and directions determined by the local government, the overall vision of the city's development, local tactical decisions of the local government on the issues of municipal administration and development.

Economic conditions include the general economic climate and specific factors such as interest rates, exchange rates, the inflation rate, the unemployment rate, the rate of economic growth, trade deficits, or surpluses, savings rates, and per capita domestic product (Gamble, 2014). Assessing this factor of the external business environment at city level, the city's location and situation in the business sector should be considered as well.

Sociocultural forces include the societal values, attitudes, cultural factors, and lifestyles that impact businesses, as well as demographic factors such as the population size, growth rate, and age distribution (Gamble, 2014).

Technological factors include the pace of technological change and technical developments that have the potential for wide-ranging effects on society (Gamble, 2014). Opportunities provided by technologies are an essential competitive advantage not only as an internal business environment factor of the company but as an external factor as well. Analysis of this factor requires consideration of the technological opportunities in the city available for entrepreneurs.

Environmental forces include ecological and environmental forces such as weather, climate, climate change, and associated factors such as water shortages (Gamble, 2014). Evaluating this factor, it is necessary not only to consider the ecology-related issues but also to assess availability and quality of different types of energy in the city. The external environment factor affects the company's finances in terms of the costs.

Legal and regulatory factors include the regulations and laws which companies must comply with such as consumer laws, labour laws,

antitrust laws, and occupational health and safety regulations (Gamble, 2014). Analysing this factor at the level of city, the attention should be paid to the regulations adopted by the local government to regulate specific areas of activities.

In Rezekne, the tourism industry is considered to be one of the development priorities. According to this priority, the need for development of the hotels and other tourist accommodations, the necessity for organization of the air traffic and development of the cycling infrastructure are emphasized. In Rezekne, the measures to improve environmental factors are purposefully organized, for instance, water quality control at bathing sites, centralized waste management, drinking water quality improvement, development of degraded territories, improvement and maintenance of “green” territories, etc. An important instrument for the city and business development is participating in the projects. At this point, Rezekne municipality actively participates in obtaining the European Union structural funding; it results in an improved urban environment that positively impacts entrepreneurship. Nevertheless, there is a lack of well-organized transport infrastructure in the city; as well, for the investors of the Rezekne Special Economic Zone (hereinafter - RSEZ), a structured engineering infrastructure in the area is essential. Elimination of these problems would positively impact the external business environment in Rezekne.

Economic conditions in Rezekne can be assessed as dual. On the one hand, there are positive trends in some areas that actually indicate a favourable external business environment. Nonetheless, some economic indicators point to the contrary. Rezekne’s geographical location and the RSEZ area with the preferential tax regime should be viewed as a positive external business environment factor. Most of the businesses in Rezekne are service sector companies, though the biggest turnover is generated by the companies in the manufacturing, forestry, and agricultural sectors. Fairly lot of companies are registered in the cargo transportation sector in Rezekne. Statistical data reveal that the number of economically active statistical units of market sector per 1000 inhabitants in Rezekne has increased providing the fourth best result in the country. Comparatively low wages contribute to the departure of skilled labour force, negatively affecting the supply of human resources of appropriate qualification, relevant skills, and competencies to the enterprises.

Manufacturing is the sector that generates real added value, yet, in Rezekne, the smallest number of employees is in the manufacturing sector. Overall, the city has a relatively high unemployment rate; the average net wage is lower than in the country. In theory, entrepreneurs

would not have a problem of finding the necessary staff, however their qualifications do not correspond to the labour market needs.

The economic situation in Rezekne contributes to the deterioration of certain demographic indicators, such as decrease of the total population, and increase of the demographic dependency ratio. Human resources are essential to any company; nonetheless the above mentioned situation can lead to significant problems for successful business development in the future.

Rezekne city has the necessary prerequisites for development of e-business, since there is good availability and speed of the optical network. Significant support for the entrepreneurs could be provided by the present higher and vocational education institutions; in a result of cooperation, development of new study programmes according to the needs of entrepreneurs is possible.

Rezekne Municipality has implemented a number of projects by means of the European Union's structural funding, thus restructuring the waste management sector, upgrading water supply and sewerage systems. Still, significant investments are required in this area since there is a need to modernize and improve heating services in the city. The municipality requests the employers to maintain and improve the territories adjacent to the business location. From the urban development point of view, it is a positive fact, though it creates additional costs for entrepreneurs and raises the costs of the project.

Conclusions and suggestions

In general, it shall be concluded that the entire external business environment factors are closely related, the changes of one factor result in consequential changes in another, for instance, the economic situation of the external environment is significantly affected by the other factors such as sociocultural forces, environmental forces, etc.

The external political factors of Rezekne should be regarded as a targeted strategic action for the successful development of the tourism sector. The companies operating in this area can plan their development being aware of the municipal support.

Overall, it can be concluded that, in Rezekne, the development priorities are defined, and the appropriate measures are performed to achieve the objectives. Furthermore, the entrepreneurs evaluating and considering the positive and negative aspects of the business environment have possibilities to successfully plan and develop their activities in Rezekne.

Research hypothesis that has been put in Rezekne business external environment has been confirmed.

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UZŅĒMĒJDARBĪBAS ĀRĒJĀS VIDES PROBLĒMAS UN IESPĒJAS RĒZEKNES PILSĒTĀ

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Kopsavilkums

Uzņēmējdarbība ir būtisks priekšnosacījums teritorijas sekmīgai attīstībai, jo veicina investīcijas, rada darba vietas, pašvaldības budžets saņem nodokļus un nodevas, tiek sakārtota vide, uzlabojas sociālā situācija. Bet katrā pilsētā kopējā uzņēmējdarbības attīstība ir atšķirīga. To ietekmē konkrētās teritorijas ģeogrāfiskais izvietojums, atsevišķas likumdošanas normas, sociālekonomiskā un demogrāfiskā situācija u.c. faktori. Iepriekš minētais veido tā saukto ārējo biznesa vidi.

Rēzeknes pilsēta atrodas Latgales reģionā, kuram ir viens no zemākajiem attīstības indeksiem starp visiem Latvijas reģioniem. Uzņēmējdarbības veicināšana ir instruments, lai uzlabotu sociālekonomisko situāciju pilsētā. Tāpēc ir nepieciešams izvērtēt pašreizējo biznesa vidi pilsētā, lai konstatētu trūkumus, kas palīdzētu rast atbilstošus risinājumus to novēršanai.

Raksta mērķis ir veikt Rēzeknes pilsētas ārējās uzņēmējdarbības vides faktoru un to ietekmes izvērtējumu.

Mērķa sasniegšanai izvirzītie uzdevumi:

- ārējās biznesa vides teorētisko aspektu izpēte;
- Rēzeknes pilsētas ārējās biznesa vides izpēte;
- secinājumu un priekšlikumu izstrāde.

Izmantotās datu vākšanas un analīzes metodes: loģiski konstruktīvās, sintēzes un analīzes, monogrāfiskā, dokumentu analīzes, PESTEL analīzes.

Pilsētas ārējās biznesa vides analīze tika veikta izmantojot PESTEL analīzes metodi un pētījuma bāze bija Rēzeknes pilsētas 2014.gadā izstrādātais dokuments "Pašreizējās situācijas izvērtējums". Biznesa ārējā vide tika vērtēta balstoties uz sešiem faktoriem: politisko, ekonomisko, sociālo un kultūras, tehnoloģisko, vides un likumdošanas.

Kopumā jāsecina, ka visi ārējās biznesa vides faktori savā starpā ir cieši saistīti un izmaiņas kādā vienā rada atbilstošas sekas citā.

Rēzeknes pilsētā tūrisma nozare tiek uzskatīta kā viena no attīstības prioritātēm, atbilstoši tam ir uzsvērtā nepieciešamība un pašvaldības atbalsts atbilstošās nozares uzņēmumu attīstībai. Rēzeknes pilsētas pašvaldība aktīvi piedalās Eiropas Savienības struktūrfondu finansējuma saņemšanā, kā rezultātā tiek sakārtota pilsētvide, kas pozitīvi ietekmē uzņēmējdarbību, bet tomēr šajā jomā joprojām ir nepieciešamas investīcijas, lai to pilnībā sakārtotu.

Ražošana ir tā nozare, kas rada reālu pievienoto vērtību, bet Rēzeknes pilsētā ražošanā ir vismazākais nodarbināto skaits, jo pilsētā pārsvarā ir pakalpojumu nozares uzņēmumi.

Kopumā pilsētā ir salīdzinoši augsts bezdarba līmenis, arī vidējā neto darba samaksa ir zemāka nekā kopumā valstī. Teorētiski uzņēmējiem nebūtu problēmu atrast nepieciešamos darbiniekus, bet to kvalifikācija neatbilst darba tirgus prasībām.

Ekonomiskā situācija Rēzeknes pilsētā veicina atsevišķu demogrāfisko rādītāju pasliktināšanos, piemēram, samazinās kopējais iedzīvotāju skaits, palielinās demogrāfiskās slodzes līmenis. Jebkuram uzņēmumam ir nozīmīgi cilvēkresursi, bet iepriekš minētā situācija nākotnē var radīt nozīmīgu problēmu sekmīgai uzņēmējdarbības attīstībai.

Rēzeknes pilsētā ir noteiktas attīstības prioritātes, tiek veikti atbilstoši pasākumi, lai sasniegtu izvirzītos mērķus, kā arī ir nepieciešamie priekšnosacījumi, lai attīstītu e-biznesu. Uzņēmējiem rūpīgi izvērtējot un ņemot vērā uzņēmējdarbības vides pozitīvos un negatīvos aspektus pastāv iespēja veiksmīgi plānot un attīstīt savu darbību Rēzeknē.

Atslēgas vārdi: *biznesa vide, ārējā vide, uzņēmējdarbība, Rēzeknes pilsēta.*

SELECTED ASPECTS OF MANAGEMENT METHODS USED BY COMPANIES IN PODLASKIE PROVINCE

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Abstract: Since the principles of the free market economy were introduced in Poland, the increased interest of managers has been noticed in acquiring modern management methods and implementing them in different spheres of business activity. More and more companies use benchmarking, outsourcing, lean management, strategic scorecard or competence management in their business practice. Awareness of managers regarding modern approaches that reflect the world's best practical achievements is important in itself. But no less important is the understanding that management methods cannot be always applied and not by everyone, so there are also some serious risks. Inappropriate use of the concept of management can lead a company to the crisis and fall when, in its turn, the proper understanding and its further application can protect the company against those risks. It is important to determine what for, when and how to use the concept. This article presents the results of the pilot studies conducted among companies in Podlasie on the application and assessment of the suitability of modern management methods. The aim of the research presented in this article was to identify whether and to what extent the Podlasie companies use modern methods of management. The study was carried out in the first quarter of 2014 focusing on a sample of 104 randomly selected companies in Podlaskie province. The research method employed was a survey carried out among enterprises.

Keywords: *modern management, methods of management, Podlaskie province*
JEL code: *D200*

Introduction

Modern enterprise environment, characterized by, among others, deterioration of operating conditions, tightening competition, volatility of changes and presence of multiple constraints, determines the need to seek new ways of doing business and managing organizations. Management science presents various concepts and methods of management, to support enterprises in predicting, adapting and shaping the turbulent, changing environment. The changes are hardly predictable today as they are of the innovative nature, come quickly and cover the global space.

In a so defined market environment, the need to improve competitiveness of the organization and achieve the greatest possible financial benefits becomes the most important objective of the company and it forces managers to reach for effective organizational solutions deriving from new management concepts. The tasks set for the modern management systems include adaptation of the company to turbulent market conditions, staying ahead of competitors, market monitoring and skillful use of signals on the opportunities and threats posed by the environment. Now managing a company requires development of effective approaches and methods for solving the tasks it faces. Therefore, knowledge about the possible use of new methods and systems in the company management, deriving from different organizational approaches, is important for today's managers. A method, in the context of management science, is a way of ensuring internal, temporal and logical adjustment of the management process. Management method will determine the manner of action and implementation of projects aimed at solving management problems emerging in the organization (Matwiejczuk, 2009). Describing, in more detail than in the method, how the activities are carried out within the framework of specific management techniques, which are characterized as routine methods, included in strict programs, such as algorithms or procedures (Kowalczewski, 2007). It can therefore be assumed that *management techniques* are particular patterns of conduct, the procedures by which management at different levels can coordinate staff activities so that under certain conditions, their goals are achieved. A system approach currently used in management forms management systems. They constitute one of the most popular tools for managing the organization. The management system is a set of solutions implemented in the organization to help in managing it effectively. The solutions apply to different aspects of business, including organizational structure, exploration of customer needs, communication within the organization, making purchases, etc. In practice, there are many business management systems that cover areas such as quality, environment, safety, financial management (Borys, Rogala, 2007).

This article presents the results of the pilot studies conducted among Podlasie managers on assessing the suitability and the scale of their exploitation of modern management methods. Empirical research was carried out in the first quarter of 2014 on a representative sample of companies from the region of Podlasie, it was a questionnaire survey. The results of preliminary studies will constitute the basis to conduct in-depth theoretical analyzes and prepare a wide-ranging empirical research.

Purpose of research, research methodology and sample

The aim of the research presented in this article was to identify whether and to what extent the Podlasie companies use modern methods of management. The results of the pilot studies carried out in the first quarter of 2014 focusing on a sample of 104 companies in the Podlasie province were chosen at random. The pilot studies were prepared on the basis of analysis of existing literature and research in this area. Research assumptions and some preliminary results were presented in the conference materials (Kobylińska, Matwiejczuk, 2014).

The results of the pilot studies aimed to assess the scale and the scope of the use of modern management methods / systems are prepared in thematic blocks:

- the use of modern management methods/systems and their importance for the competitiveness of the company;
- the use of certified management systems and their importance for the competitiveness of the company;
- benefits of using modern management methods/systems;
- the degree of application and difficulties in the implementation of innovative solutions in the field of product or organization by the Podlasie companies;
- assessment of university-enterprise cooperation in the implementation of management methods or product and organizational improvements.

Prior to the formulated thematic block the research tasks were out forward.

The analyzed companies represented various entities from the point of view of the industry in which they operate, the number of employees, their operating range (table 1).

Table 1 Characteristics of the surveyed companies
(Source: own research)

| Sector | The number of enterprises (in %) | Number of employees | Response rate | Operating range | Response rate |
|--------------|----------------------------------|---------------------|---------------|-----------------|---------------|
| Production | 43.3 | 1-10 | 32.7 | Local | 21.2 |
| Distribution | 1.9 | 11-50 | 26.9 | Regional | 20.2 |
| Trade | 25.0 | 51-250 | 14.4 | National | 19.2 |
| Services | 29.8 | above 251 | 26 | International | 39.4 |

Identification of management methods used by the Podlasie companies

Analysis of the application of the management concept by the companies in Podlasie indicates that the vast majority of them use several methods simultaneously. The most popular is CRM (54.8% of the respondents), Controlling (52.9% of the respondents), logistics management (53.8% of the respondents) and competence management (43.3% of the respondents). Less popular methods include strategic management (42.3% of the respondents), knowledge management (41.3% of the respondents) or outsourcing (35.6%). The least of Podlasie companies use the 6sigma method, reengineering and strategic scorecard. Their share in the practice of companies is marginal. A detailed scheme of responses is reflected in figure 1.

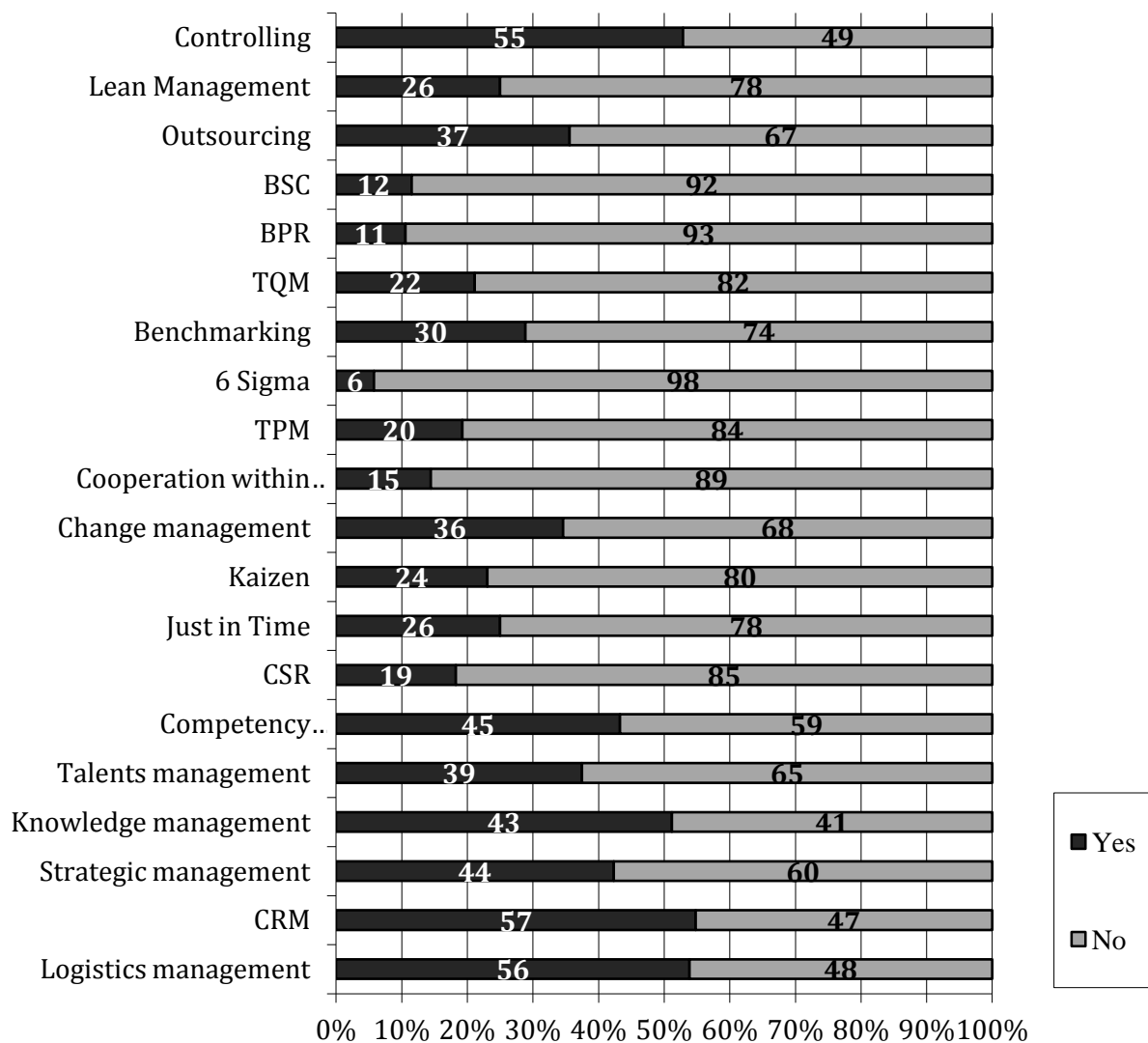


Fig. 1 Management methods used by the Podlasie companies
(Source: own research)

Popularity of controlling and outsourcing is not surprising, as since the 90s of the last century they have been among the most widely used methods of business management, mainly in the manufacturing industry. This is largely due to the historical circumstances in which the individual companies functioned and also restructuring activities undertaken by them since the mid 90's of the last century (Lisiński, Sroka, Brzezinski, 2012).

On the other hand, a small proportion of the methods such as 6Sigma, Business Process Reengineering or the Balanced Scorecard (BSC) may be due to poor knowledge of these somehow strange-sounding methods and significant costs associated with their implementation. Furthermore, the effectiveness of these methods and their usefulness is described in the literature mainly for large enterprises, which are not numerous in Podlasie province.

Analysis of the implemented methods in the industry in which the company operates can be concluded with a statement that manufacturing companies more often use management methods than those in the trade and service sectors. This is partly due to the specifics of the processes implemented in production and the fact that some management methods are strictly related to production, such as for example: Total Productive Maintenance (TPM), Just in Time (JIT) logistics management. Detailed results of the research in this area are presented in table 2.

Table 2 The methods used and the business sector (N = 104)
(Source: own research)

| Method | Production (N=45) | Distribution (N=2) | Trade (N=26) | Services (N=31) |
|------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| | The number of enterprises | The number of enterprises | The number of enterprises | The number of enterprises |
| Controlling | 26 | 1 | 16 | 12 |
| Logistic Management | 26 | 2 | 15 | 13 |
| CRM | 24 | 2 | 15 | 16 |
| Strategic Management | 22 | 2 | 10 | 10 |
| Change Management | 20 | 1 | 6 | 9 |
| Knowledge Management | 20 | 0 | 10 | 13 |
| JIT | 19 | 0 | 2 | 5 |
| Outsourcing | 19 | 0 | 11 | 7 |
| Competence Management | 19 | 1 | 14 | 11 |

| | | | | |
|---------------------------------------|----|---|----|----|
| Talent Management | 18 | 0 | 11 | 10 |
| Kaizen | 17 | 0 | 3 | 4 |
| Lean Management | 17 | 0 | 5 | 4 |
| TPM | 17 | 0 | 0 | 3 |
| Benchmarking | 16 | 0 | 8 | 6 |
| TQM | 12 | 0 | 6 | 4 |
| CSR | 11 | 0 | 4 | 4 |
| Cooperation within the cluster | 9 | 0 | 3 | 3 |
| BPR | 5 | 0 | 4 | 2 |
| 6 Sigma | 4 | 0 | 0 | 2 |
| BSC | 3 | 1 | 3 | 2 |

In another question, the respondents pointed to the certified management systems they have. In this respect, the most popular was a certified quality management system (ISO 9001) – owned by 31.7% of the respondents. Subsequently, the respondents indicated work safety and hygiene management system PN-N-18001 (26.9% response rate). Less than one in five respondents had environmental system - ISO 14001, and the least popular was certified information management system - ISO 27001.

Table 3 Certificates by the Podlasie company
(Source: own research)

| Certified management system | Yes | | No | | Together | |
|-----------------------------|--------|------|--------|------|----------|-------|
| | Number | % | Number | % | Number | % |
| ISO 9001 | 33 | 31.7 | 71 | 68.3 | 104 | 100.0 |
| ISO 14001 | 18 | 17.3 | 86 | 82.7 | 104 | 100.0 |
| PN-N 18001 | 28 | 26.9 | 76 | 73.1 | 104 | 100.0 |
| ISO 27001 | 8 | 7.7 | 96 | 92.3 | 104 | 100.0 |

One can easily notice, while analyzing certifications of management systems by industry, that mainly manufacturing companies had them (they got a total of 58 certificates). The most popular certification in the industry was ISO 9001. This is not a surprise, as companies strive for ISO 9001 certification often for marketing reasons. The quality system may be a message to the client that the company is working to improve product performance and it is customer-oriented. Subsequent firms which implemented certified management systems were service companies (16 certificates). Surprisingly most popular in the industry

was a certified system of health and safety. Undoubtedly, safety certification influences improvement of working conditions in the company and can increase employees' satisfaction with the job, even if it is the service industry where you do not identify as many hazards and occupational risks as there are on production. Trading companies had a total of 9 certificates. Their share in the total number of companies in this sector was the smallest (table 4).

Table 4 Certificates by Podlasie companies by industry
(Source: own research)

| Certificate | Production | | Distribution | | Trade | | Services | |
|-------------|------------|------|--------------|-------|--------|-----|----------|------|
| | Number | % | Number | % | Number | % | Number | % |
| ISO 9001 | 25 | 55.6 | 1 | 50.0 | 3 | 8.3 | 4 | 12.9 |
| ISO 14001 | 15 | 33.3 | 0 | 0.0 | 1 | 3.8 | 2 | 6.5 |
| PN-N 18001 | 15 | 33.3 | 2 | 100.0 | 3 | 8.3 | 8 | 25.8 |
| ISO 27001 | 3 | 6.7 | 1 | 50.0 | 2 | 7.7 | 2 | 6.5 |

The last question in this part of the survey was concerned with cooperation of universities and the researched companies in introducing product and organizational innovations, and contemporary management methods. Only less than 8% of the respondents declared cooperation with a university in this aspect. The remaining 92% had no experience in cooperation with universities at all (Figure 2).

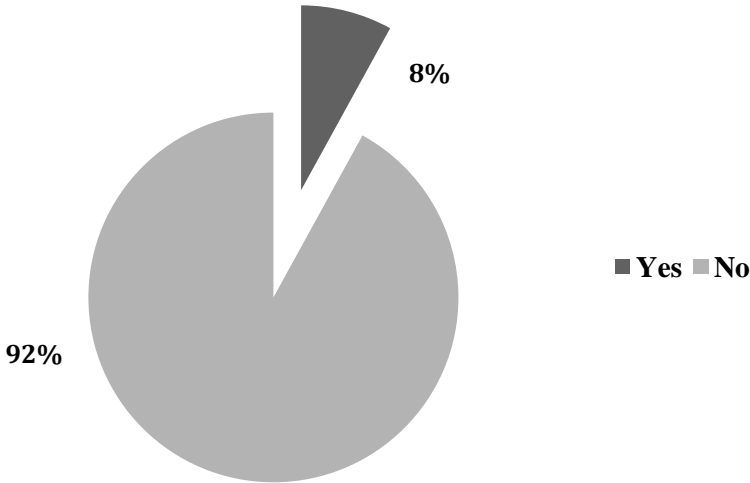


Fig. 2 Has the company ever cooperated with a university in the implementation of product and organizational innovations or management methods?
(Source: own research)

Causes of poor cooperation between companies and universities seem puzzling (table 5).

Table 5 Reasons for failing to cooperate with the university
(Source: own research)

| Lp | Cause | % of responses |
|----|---|----------------|
| 1. | There is no need | 46.15 |
| 2. | We have no access to the information about the university offer | 33.6 |
| 3. | It does not pay us | 6.7 |
| 4. | Other | 4.8 |

The most frequently mentioned reasons for failing to cooperate with universities are no need for co-operation (46.15% response rate), and lack of access to the information about the services offered by universities (33.6% response rate).

Benefits and barriers to the use of management methods in enterprises

In the next question, the respondents had to indicate the benefits of the use of modern management methods, assigning them rank in the scale of 1-5. The following table 6 summarizes the results of these research.

Table 6 Benefits of using modern management (Source: own research)

| Lp | Benefits | Importance (1-5)* |
|----|--|-------------------|
| 1 | Better meet customer needs | 4.28 |
| 2 | Increased effectiveness | 4.05 |
| 3 | Improving the company's competitive position | 4.00 |
| 4 | Improving the image of the company | 3.97 |
| 5 | Minimizing operations costs | 3.92 |
| 6 | Increasing the value of the company | 3.83 |
| 7 | Widening the scope of the company | 3.63 |
| 8 | Increase in employee satisfaction | 3.45 |
| 9 | Strengthening relationships with suppliers | 3.42 |

*1 – least important; 5 – most important

Analysis of the benefits of using modern management methods leads to the conclusion that the surveyed companies indicated almost the same importance of various benefits in improving their competitiveness. The decisive advantage of this evaluation is to better meet customer needs (average score - 4.28). Further high scores received the following

benefits: increased performance efficiency (average - 4.05), the improvement of the competitive position (average - 4.0). The studied companies see the smallest benefits in the following areas: increasing employees' satisfaction (average score 3.45) and strengthening relationships with suppliers (average score - 3.42).

Apart from the above mentioned research results, clear benefit from the application of modern management methods is a better preparation of companies to face competition by meeting the demands of modern trends in competitiveness. As a result, the firm will have better prospects for survival and growth in a highly turbulent environment.

The Podlasie entrepreneurs were also asked a question about the barriers that limit the ability to implement modern management methods. Most respondents indicated such restrictions as high costs of implementation, lack of time or insufficient knowledge of the implemented management methods, along with no external support (table 7). Quite significant are also barriers involving the lack of faith and positive examples in the application of these methods, and employee resistance to all types of change.

Table 7 Barriers to implementation of modern management methods
(Source: own research)

| Lp | Barrier | Importance (1-5)* |
|----|---|-------------------|
| 1. | High costs of implementation | 3.7 |
| 2. | No time for implementation | 3.1 |
| 3. | Lack of knowledge of / methods / management system | 2.8 |
| 4. | No external support (EU funds, cooperation with a university, local government) | 2.8 |
| 5. | Claim of uselessness | 2.6 |
| 6. | Employee resistance | 2.4 |
| 7. | Ignorance of the existence of methods | 2.4 |
| 8. | Fear of change | 2.3 |

*1 – least important; 5 – most important

Conclusions and suggestions

The analysis made in this article confirms that many of the surveyed companies located in Podlaskie province take actions fully referring to the contemporary management trends in the global science and practice. This analysis was made on the basis of surveys conducted.

The results of the studies conducted and presented in this article indicate that the companies in Podlasie know and use modern methods of management, although the degree of their use and usefulness varies. The

scope of application of modern management methods in enterprises in Podlasie, primarily depends on such factors as the nature of a company, its size and operation range.

The level of knowledge and personal commitment of management staff, the financial situation and the current competitive position of a company are also important. Making managers aware that strategic partnerships for cooperation are key success factors in business facing global competition (YL Doz, G. Hamel, 2006) will force them to look for new sources of competitive advantage. What connects all modern concepts – starting from ME Porter, through G. Hamel and CK Prahalad, and ending on works of W.Ch. Kim and R. Mauborqne (ME Porter, 1985; Fang Lee Cooke, 2008; Hamel G., Prahalad CK, 1994; Hunt SD, Morgan RM, 1996; Ray G., J. Barney, Muhanna W., 2004; Kim W.Ch., Mauborqne R., 2005) – is that outstanding results require exceptional and non-standard measures. Each organization ought to take action that will build its uniqueness in the market, giving a competitive advantage and ensuring higher-than-average results at the same time.

The message of this article is addressed not only to the companies in Podlasie. Active scrutiny of the market, also in terms of modern management, is advisable and the methods that can be helpful in improving competitive potential and building competitive advantages should be used. Taking into consideration the predominance of opportunities and benefits over costs and risks we should note that the concepts used reasonably make nowadays an objective necessity not just a trend. Therefore, while maintaining situational conditions and mutual complementarities, they should be implemented and used in practice.

The presented results of the pilot studies imply the need for further research on the analyzed issues.

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ATSEVIŠKI PĀRVALDĪBAS METOŽU ASPEKTI, KO IZMANTO UZŅĒMUMI PODLASES VOJEVODISTĒ

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Kopsavilkums

Mūsdienu vadības zinātne piedāvā dažādas vadības metodes un koncepcijas, lai atbalstītu uzņēmumus, prognozējot, pielāgojot un veidojot nepastāvīgu, mainīgu vidi. Mūsdienās šīs izmaiņas ir grūti prognozējamas, jo tās ir novatoriskas, pēkšņas un aptver visu pasauli. Šādi definētā tirgus vidē nepieciešamība uzlabot organizācijas konkurētspēju un sasniegt iespējami lielāku finansiālu labumu kļūst par svarīgāko uzņēmuma mērķi un liek vadītājiem sniegties pēc efektīvākiem organizatoriskiem risinājumiem, kas izriet no jaunām pārvaldības koncepcijām. Uzdevumi, kas izvirzīti mūsdienu pārvaldības sistēmām, ietver uzņēmuma pielāgošanos svārstīgiem tirgus apstākļiem, konkurentu apsteigšanu, tirgus uzraudzību un signālu par iespējām un draudiem, ko rada vide, prasmīgu izmantošanu. Mūsdienās uzņēmuma pārvaldībai ir būtiska efektīvu darbību un metožu izstrāde, lai atrisinātu uzdevumus, ar kuriem tā saskaras, tādēļ, mūsdienu vadītājiem ir nepieciešamas zināšanas par jauno metožu, kas izriet no dažādām organizatoriskām pieejām, iespējamo izmantošanu uzņēmuma pārvaldībā.

Raksts iepazīstina ar eksperimentālo pētījumu Podlases vadītāju vidū, kas tika veikts, lai noteiktu moderno pārvaldības metožu izmantošanas piemērotību un apjomu. Empīrisks pētījums, kas ietvēra anketēšanu, tika veikts 2014. gada pirmajā ceturksnī, izmantojot reprezentatīvu izlasi, ko veidoja uzņēmumi no Podlases vojevodistes. Pētījumu rezultātu analīze pierādīja, ka daudzi no aptaujātajiem

uzņēmumiem, kas atrodas Podlases vojevodistē, veic darbību saskaņā ar mūsdienu pārvaldības tendencēm, kas sastopamas pasaules zinātnē un praksē. Veiktā pētījuma rezultāti, kuri ir atspoguļoti šajā rakstā, liecina, ka uzņēmumi Podlases vojevodistē zina un izmanto mūsdienīgas pārvaldības metodes, lai gan to izmantošanas un lietderības pakāpe atšķiras. Moderno pārvaldības metožu piemērošanas apjoms uzņēmumos Podlases vojevodistē galvenokārt ir atkarīgs no tādiem faktoriem kā uzņēmuma veids, lielums un darbības sfēra.

Atslēgas vārdi: *mūsdienīgā pārvaldība, pārvaldības metodes, Podlases vojevodiste.*

THE WILL OF THE PATIENT EXPRESSED IN ADVANCE AND ITS LEGAL CONSEQUENCES

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Abstract. *The regulation of the will of the patient expressed in advance is controversial and insufficient in the Latvian legislation. The legal regulation on the will of the patient expressed in advance stipulates clearly only the form of the will of the patient; it has to be established without sufficient reference to its legally binding force.*

The aim of the research is to carry out a legal analysis of the institution of the patient's will expressed in advance, to identify legal flaws related to it and to propose particular solutions to eliminate the identified limitations. To achieve the aim, the following research tasks are set: 1) to analyze the legal nature of the patient's will expressed in advance; 2) to explore the content and term of the patient's will expressed in advance; 3) to assess the establishment of the patient's will expressed in advance and its termination. The following research methods are used in the research: semantic method, grammar method, historical method, analytical method, comparative method, systemic method, teleological method.

In a result of the research the author has formulated the principles of the will of the patient expressed in advance that could be introduced in the legal regulation on the issue, thus improving the legal protection of the patient. Analysing the legal nature of the patient's will expressed in advance and taking into account its peculiarity, the content boundaries of this particular type of the expression of the patient's will were defined identifying the extent of the patient's self-determination. Assessing various possibilities of choosing the term defining the patient's will expressed in advance, the author has sustained the most appropriate version of the term considering both national and international legal regulation, and notions of the legal doctrine. Another issue of a similar significance that was analysed in the research were the methods used in the legal practice of the world countries to determine the patient's will expressed in advance; the author has analysed and offered the determination method, which is the most appropriate for the legal system of Latvia. In the conclusion, types of termination of the patient's will expressed in advance and their legal consequences were analysed. Furthermore, the author proposes an applicable project of the amendments to the legal regulations in order to implement the theoretical conclusions of the research related to the patient's will expressed in advance into the legal system of Latvia.

Keywords: *establishment of the will, patient, will expressed in advance, registry of the will.*

JEL code: *K32 Environmental, Health, and Safety Law*

Introduction

The nature of legal relationships between a patient and a healthcare practitioner/ establishment has changed along with the development of the medical law – a new area covering civil and administrative aspects in

the field. For a long time the patient has been treated as a person who is a subject to the choice of a doctor (paternalism) in healthcare. Nevertheless, the paternalism, or a patronage attitude towards the patient, is not supported anymore in the science of law in general. On the contrary, the trend has occurred where the legal arrangements are focused towards the patient as an independent legal entity with a specific set of rights, obligations and responsibilities.

Nowadays the will of the patient is considered to be a core of the legal relations between a patient and a healthcare practitioner/ establishment; all further legal relations between the parties are subject to it. However, the institution of the will of the patient is multifaceted and includes a range of various legal nuances and issues.

One of the criteria to classify the expression of will of the patient is a way the will of the patient is established. The will of the patient could be categorized as follows in accordance with the above mentioned criterion. The first, the will of the patient could be expressed directly, including (a) the will of the patient for the current moment; (b) the will of the patient expressed in advance. The second, the will of the patient could be derivative from the legal presumption, i.e., the presumed will (interests) of the patient – what action would have been approved by the patient in accordance with his interests, and the presumption of the will of the patient.

The aim of the research is to carry out a legal analysis of the institution of patient's will expressed in advance, to identify legal flaws related to it and to propose particular solutions to eliminate the identified limitations. To achieve the aim, the following research tasks are set: 1) to analyze the legal nature of the patient's will expressed in advance; 2) to explore the content and term of the patient's will expressed in advance; 3) to assess the establishment of the patient's will expressed in advance and its termination. The following research methods are used in the research: semantic method, grammar method, historical method, analytical method, comparative method, systemic method, teleological method. Research hypothesis: if the existing deficiencies of the legal regulations related to the patient's will expressed in advance are eliminated, the patient's legal status in the legal medical relations will be improved and stabilized.

The research is elaborated mainly on the basis of the legal regulations of Latvia and foreign countries, materials of the foreign case-law, and a few researches of the legal science available that are related with the patient's will and its civil judicial remedy.

Establishment of the will of the patient expressed in advance

The patient has the right to express the will in advance, i.e., before the circumstances requiring to express the will arise. These are the rights of the patient, not the obligation (German Civil Code, 1896, §1901a(1), (4); Finland's Act on the Status and Rights of Patients, 1992, s.6, 8; Österreichs Patientencharta, 2001, Art.18, 31; Patientenverfügungs-Gesetz von Österreich, 2006; Virginia Health Care Decisions Act, Code of Virginia). Besides, there is only one requirement to the person expressing the will in advance – he/she has to have a legal capacity to act (German Civil Code, 1896, §1901a, Part 3; Patientenverfügungs-Gesetz von Österreich, 2006, §2, Part 2, §3; Giesen, 1988, 476). There is no requirement that the person at the moment of expressing the will should already have a legal status of a patient, that is, to have a particular medical condition or a specific degree of its severity.

When expressing the will in advance, the legal capacity of the person to act is presumed (There was the case to examine if the patient with mental disorders had the capacity to express her will in advance. The commission ruled that the legal capacity of the person had to be presumed, and if there was someone suggesting the contrary then the suggesting person had the obligation to prove it himself/ herself (*T.U. (Re)*, The Consent and Capacity Board of Ontario province, Canada, 2005)). Thus, it can be concluded that any person is entitled to use his rights of self-determination to affirm his will regarding the medical treatment by expressing the will in advance.

The will of the patient expressed in advance could be established in two ways used in different countries. The first, directly: if the specific procedure for the expressing the will in advance is established in the country, thus establishing the legal force of the will towards the third parties without additional legitimating (the public way) (for instance, in Austria – the patient by expressing the will in written at the attorney's office, the notary or the special institution established at the hospital (Patientenverfügungs-Gesetz von Österreich, 2006, §6, Part 1); in Denmark – by registering the will in the register of the advance express will (Health Act of Denmark, 2005, *art.5*); in the Virginia state, USA, the will has to be expressed either in writing in the presence of two witnesses, or, in the exceptional cases (for instance, in the stage of death), orally in the presence of two witnesses and the doctor – by registering the prior express will in the register at the notary's (Virginia Health Care Decisions Act, Code of Virginia, art. 54.1-2983, art. 54.1-2984); in Georgia – in written (Law on the Rights of Patient of Georgia, 2000, art. 24.1.); in Germany – the will expressed in written or orally to the doctor or other medical person who records the will of the patient in the written

form (German Civil Code, 1896, §1901a, Part 1; Patientenautonomie- und Integritätsschutzgesetzprojekt von Deutschland, 2005, §1, Part 1); in the South Africa – the patient has to inform himself/ herself the provider of the medical service about his will regarding actions after the death of the patient (Patient's Rights Charter of South Africa, 1999, art. 3.7)). The second: indirectly – the legal substitute of the patient has rights to represent the will of the patient if the will was expressed in advance (orally, in written or by implicit actions) (the private way). In Latvia, a possibility exists to register the will of the patient expressed in advance regarding the use of the body, tissues and organs after the death in the Population Register of Latvia (see: Law on the Protection of the Body of Deceased Human Beings and the Use of Human Tissues and Organs in Medicine, 1993, art. 3, art. 4). The substitutes of the patient have another type of the rights: to disclose the will of the patient expressed in advance without special legitimatisation in the custody court or in the court (for instance, see: Law on the Protection of the Body of Deceased Human Beings and the Use of Human Tissues and Organs in Medicine, 1993, art.4 (by analogy)). However, this approach should not be supported because of its relatively high subjectivity, especially, when the substitutes of the patient do not have the will of the patient expressed in written. The reasonable solution would be achieved if the national register of the wills of the patients expressed in advance were established containing all types of the expressed wills of the patients. The register would be accessible to the persons related to the medical treatment of the patient; the information should be defined as having restricted access.

Legal nature of the will of the patient expressed in advance

The legal nature of the will expressed in advance is being evaluated controversially. An opinion exists that the expressed will could be evaluated either as a will that is expressed for the current moment by the patient or as an indirect proof of the presumed will. However the will of the patient expressed in advance should be equated to the will stated for the particular current moment and the principle of the private autonomy of the legal entity (as well the patient) should be set as a priority, since it is controversial, to what extent the involvement of the third persons (relatives, etc.) is justified to interpret the will of the patient (Mona, 2008, 251-254, 256). Herewith the clarification is required. The will expressed in advance arises directly from the patient, in contrary to the presumed will. In consequence, the patient can express the will both at the current moment, and in advance for the future; the running of time creates subordinate, subsidiary nature of the will expressed in advance regarding the will expressed at the current moment. Therefore it is necessary to

distinguish types of the advance expressions of will along with derivative legal consequences.

The will of the patient expressed in advance could be determined indirectly as well, i.e., via the substitute of the patient. The concept of the substitution in the civil law is comparatively restricted, as it is defined that the substitute cannot act on behalf of the person expressing the will. It would be contrary to the real meaning of the substitution, since the substitute formulates his own, independent expression of the will acting on behalf of another person (Balodis, 2007, 160). The same way in the medical treatment, the substitute of the patient representing the patient expresses his own independent will, though, in the interests of the patient (Law on the Rights of Patients of Latvia, 2009, art. 6, Part 7, art.7, Part 1) thus stating the presumed will of the patient. Nevertheless if the will of the patient expressed in advance has been determined via the substitute of the patient that is still the will of the patient expressed himself/ herself and not the one of the substitute (A patient's son as his legal representative requested to terminate feeding of the father by tube and provided the advance express will of the father to refuse the insertion of the feeding tube, that was in writing, typed, dated and with the signature of the patient. Both court of the first and the second instances dismissed the claim of the representative of the patient as being not in a compliance with the interests of the patient. Though the Senate assigned the case for the new proceeding pointing out that it was not the decision of the representative of the patient in this case (The Judgement of the Federal Supreme Court of Germany, 2003, point III 2b)a), 2bb)). Therefore the substitute of the patient does not have to prove the compliance of his decision with the interests of the patient but the fact that the patient had expressed the will in advance. Since only the patient himself has the right to express the will in advance (see: Patientenverfügungs-Gesetz von Österreich, 2006, §3; Ernst, 2008, 240) as that is the direct will of the patient that could be considered as well as a restriction of the substitution of the patient since the substitute of the patient rather defends the will of the patient expressed in advance instead of establishing his own expression of will thus exposing the presumed will of the patient.

Though, there is a controversial case regarding the principle of the personal nature of the will of the patient expressed in advance in the court practice. Parents of the minor patient as his legal substitutes applied to the Citizenship and Migration Affairs Office in 2006 with a request to register the will of their son to prohibit using his body, tissues and organs after death in the Population Register. The Office declined the mentioned request indicating that "only the person having a legal

capacity to act can prohibit or consent to handling own body after death by verifying it documentary” (The Judgement of the District Administrative Court (Riga) of Latvia, 2008, point 2). The patient’s mother submitted the claim to the court requesting to cancel the decision of the Office. The court sustained the claim by pointing out the following arguments: (1) the wish of the mother is established to entrench the prohibition to use the body, tissues and organs of her son after his death; this has to be considered as a justified arrangement of the defence of the rights and interests of the patient (The Judgement of the District Administrative Court (Riga) of Latvia, 2008, point 7, point 10); (2) the defence of the rights of the minor patient stipulated by the law is smaller in range rather than the one of the person having a legal capacity to act ((The Judgement of the District Administrative Court (Riga) of Latvia, 2008, point 7, point 8, point 9). The presumption of the prohibition stipulated in the law refers only to the removal of the tissues and organs of the minor deceased person for transplantation thus it does not include all possible actions with the body, tissues and organs, as well it comes to the legal force only after the death of the person (Law on the Protection of the Body of Deceased Human Beings and the Use of Human Tissues and Organs in Medicine, 1993, art. 11). The person is defended from the use of tissues and organs for scientific research and study purposes if: 1) the prohibition is registered in the Population Register; or 2) the person has the next of kin relatives (Law on the Protection of the Body of Deceased Human Beings and the Use of Human Tissues and Organs in Medicine, 1993, art. 9). If the minor person has lost the parents, his status is endangered); (3) “the parents exercise the rights of the representation of the child until he/she reaches the majority age thus ensuring overall defence of the interests of the child” (The Judgement of the District Administrative Court (Riga) of Latvia, 2008, point 9). However the principle constituting that only the patient himself/herself can express the will in advance is not refuted in the particular case. The prohibition of using body, tissues and organs of deceased human being that has to be included in the Population Register should be interpreted more broadly. The base for the registration of the prohibition should be both the expressed will of the patient (the person having a legal capacity to act), and the expressed will of the substitute of the patient stating the presumed will of the patient (the person having no legal capacity to act) thus presenting legal solution, taking into account that the mechanism for protection of the legal rights of the person stipulated in the law is insufficient in the particular case.

There is an ambiguous approach defining what the situations are when the will should be expressed in advance. There is a principle

dominating in some countries defining that the patient expresses the will in advance to avoid the situation he/she could become unable to express his consent to the medical treatment (Patientenverfügungs-Gesetz von Österreich, 2006, §2; Österreichs Patientencharta, 2001, art. 18; in Switzerland – Mona, 2008, 250; German Civil Code, 1896, §1901a, Part 1; Law on the Rights of Patient of Georgia, 2000, art. 24.1. See: Simon, Meran, Fangerau, 2004, 721). It could be agreed that the mentioned expressed will is focused to the future (see: Brauer, 2008, 231), though this approach is to be considered as a restricted one. The patient can express the will in advance: the first, regarding the actions during the life of the patient, including in particular: (a) the circumstances when the patient is still capable to express the will himself (e.g. the instructions for the contractual substitute of the patient for the case the medical treatment of the patient will be necessary); (b) the circumstances when the patient is not capable to express the will himself; the second, regarding the actions after the death of the patient (e.g. regarding the own body, the information not to be disclosed). Thus the patient has the right to express the will in advance just in case (The indirect conclusion about the mentioned approach could be made as well as based in the Latvian legislation on medical treatment (Law on the Rights of Patients of Latvia, 2009, art. 7, Part 2; Law on the Protection of the Body of Deceased Human Beings and the Use of Human Tissues and Organs in Medicine, 1993, art. 3, art. 4), regardless the time when the will takes an effect.

The will of the patient expressed in advance is of a conditional nature. It comes into effect after it is expressed (if there are special requirements regarding the form of the expressing the will – after their satisfaction), however enters into the force after the condition occurs (for instance, the necessity of the medical treatment, the lack of capacity of the patient to express the will, the death of the patient). In addition, only the will expressed regarding the acts after the death of the patient has an absolute, inevitable nature since the death of the patient will definitely occur whereas just duration of life of the patients would differ. Therefore the will of the patient expressed in advance has a conditional, expectant nature.

The legal force of the will of the patient expressed in advance has a binding effect to the range of legal entities – it has to be determined when analysing the subject. The Latvian law refers to the substitutes of the patient (Law on the Rights of Patients of Latvia, 2009, art. 7, Part 2) who has the primary right to make a decision regarding the medical treatment of the patient who does not have a capacity to act. However the decision of this kind could be made as well, for instance, by the medical council (see: Law on the Rights of Patients of Latvia, 2009, art. 7, Part 7, Part 8,

Part 9). The will of the patient expressed in advance is binding to any person who has direct or indirect relation to the medical treatment of the patient and who has the obligation to fulfil the will of the patient (This approach as well is supported by Article 9 of the Convention on Human Rights and Biomedicine (Convention for the Protection of Human Rights and Dignity of the Human Being with regard to the Application of Biology and Medicine, 1997)).

Content and definition of the will of the patient expressed in advance

There is a twofold approach on the subject of the acts during the life of the patient regarding the methods of medical treatment when analysing the substantive restrictions of the will of the patient expressed in advance. On the one hand, there are countries stipulating no restrictions to the mentioned expression of will of the patient, thus allowing the patient to decide about the methods of medical treatment without any restraint (Patientenverfügungs-Gesetz von Österreich, 2006, §4; Österreichs Patientencharta, 2001, art. 18; Virginia Health Care Decisions Act, Code of Virginia, art. 54.1-2983; German Civil Code, 1896, §1901a, Part 1; Law on the Rights of Patients of Latvia, 2009, art. 7, Part 2), whereas the doctor has the responsibility to provide the information on the expected use of the medical treatment methods in the future (German Civil Code, 1896, §1901b, Part 1; Law on the Rights of Patients of Latvia, 2009, art. 4, Part 3). On the other hand, there are countries where the restrictions are though laid down to identify the circumstances when the refusal of the life sustaining medical treatment expressed in advance is acceptable (For instance, in Denmark the patient can express his will to refuse the life sustaining treatment (just sustaining life, not treating) by the order in the circumstances: (1) when death is inevitable; (2) if the patient is not be able to support himself/ herself physically and mentally independently due to the health conditions in a result of an illness, an old age, an incident or other reasons (Health Act of Denmark, 2005); in Georgia – regarding the resuscitation, the life sustaining treatment and palliative care: (1) if it is the final stage of an incurable illness; (2) if the illness inevitably results in severe health conditions (Law on the Rights of Patient of Georgia, 2000, art. 24.1.). Even though the principle of private autonomy of the patient is recognized in the medical treatment, the restraint should be supported with the purpose to protect the patient from himself/ herself while expressing the will in advance. That should be interpreted not as a prohibition to refuse, rather as a restriction to include the refusal within the advance expression of the will, taking into account its legal nature.

The patient can assign his own substitute when expressing the will in advance (German Civil Code, 1896, §1901c; Österreichs Patientencharta, 2001, art. 29; Virginia Health Care Decisions Act, Code of Virginia, art. 54.1-2983; Law on the Rights of Patient of Georgia, 2000, art. 24.2; Law on the Rights of Patients of Latvia, 2009, art. 6, Part 7 - („(...) a patient has authorized another person (...)). These rights of the patient could be interpreted twofold. On the one hand the patient has the right to conclude an authorisation agreement in advance, thus appointing the contractual substitute of the patient for the case of the medical treatment (Since 01 January 2013 the conclusion of the future authorization agreement is particularly stipulated in Latvia (Civil Law of Latvia. Part Four. Obligations Law, 1993, art. 2317¹-2317⁷)). On the other hand, the circumstances are possible when the initiative for the appointment of the substitute for the acting in the case of the legal incapacity of the patient could arise only from the will of the patient expressed in advance. So therefore the question arises in what way this kind of the appointment should be evaluated and what are its legal consequences (For instance, in Germany the person holding the advance express appointment could head for the custody/ trusteeship court that in compliance with the express will of the patient would appoint him/her to act as the substitute of the patient (German Civil Code, 1896, §1901c)). Even if the will of the patient expressed in advance has a binding force though it does not extend so far to oblige the mentioned person to take the responsibility to become the substitute of the patient. There are two approaches possible: (1) if the mentioned person afterwards agrees with the assignment it shall be considered that the authorisation contract is concluded (Civil Law of Latvia. Part Four. Obligations Law, 1993, art. 1535); (2) the assignment by the patient shall be considered as a proxy that could legally exist even without the contract (Civil Law of Latvia. Part Four. Obligations Law, 1993, art. 2291; Torgans, Grutups, Visnakova et al., 1998, 576). If the person mentioned in the assignment by the patient agrees in writing to take the liability to be the substitute of the patient that should be considered as an authorisation contract for better compliance with the interests of the patient. That would be inaccurate to consider the assignment of the substitute expressed in advance by the patient to be the same as the assignment of the legal substitute of the patient since the legal substitution is established by the law, whereas the will of the patient provides the contractual substitution which has the priority over the legal one.

There are various terms in different countries to define the will of the patient expressed in advance (For instance: the order (die Verfügung (Patientenverfügungs-Gesetz von Österreich, 2006); the living will

(Health Act of Denmark, 2005); the last will (Заклучение Уполномоченного Этического Совета Европейской Ассоциации паллиативной помощи по вопросу паллиативной помощи и эвтаназии, 2003); the biological testament (Ванчугова). The invention of the term would make easier the legal regulation of this institution. Application of the term “the testament” is not supported since that includes mainly the succession of the property rights, besides only in the case of death (Civil Law of Latvia. Part Two. Inheritance Law, 1992, art. 418. See: Höfling, 2006, 27). Terms “the living will” and “the last will” are vague and could generate ambiguity in their application. The term “the order of the patient” could be more relevant to describe the will of the patient expressed in advance since it is not in contrary with the characteristics of the will of the patient expressed in advance: (1) it is expressed directly by the patient; (2) it is expressed in advance; (3) it could be established; (4) it is not implied; (5) it is independent of the presence of the patient though the patient cannot express the will (except the contractual substitution); (6) it ceases in the particular cases (in a result of subjective, objective circumstances). Besides the term “order” is used in the Latvian legislation (The order of the last will in the Inheritance Law (the testament, the inheritance agreement) (for instance, Notariate Law of Latvia, 1993)). Therefore the will of the patient expressed in advance shall be described using the term “the order of the patient”.

Termination of the will of the patient expressed in advance

Two tendencies could be identified when analysing the termination of the will of the patient expressed in advance. The first, the will ends when its purpose is achieved (fulfilled). The second, there are particular cases when the will of the patient could cease without achieving its purpose. The patient has the right to withdraw the will expressed in advance (Patientenverfügungs-Gesetz von Österreich, 2006, §6, Part 1, §10, Part 2; Patientenautonomie- und Integritätsschutzgesetzprojekt von Deutschland, 2005, §1, Part 3: the patient having a legal capacity to act in any time and in any form) nevertheless only by himself and not granting these rights of withdrawal to the substitute of the patient (The Judgement of the Federal Supreme Court of Germany, 2003, point III 2b), 2bb)). The development of the medicine as well could become a base for the termination, in the case if the level of development of science has changed significantly since the will of the patient expressed in advance was established (Patientenverfügungs-Gesetz von Österreich, 2006, §10(1)3)). On the one hand, that is a positive approach to evaluate the circumstances that have changed in favour of the patient. On the other

hand, it is controversial to admit if these changed circumstances would have influenced the decision of the patient in all cases. There is a more flexible solution offered stipulating that the will of the patient expressed in advance terminates in the case when, in a result of the development of medicine, the new possibilities have occurred since the will of the patient was established and the patient being acquainted with these possibilities would have made another decision (Bockenheimer-Lucius, 2007, 6). The term of validity of the will of the patient expressed in advance has to be established as well stipulating the rights for its renewal and the suspension of the prescription period due to the objective circumstances (Patientenverfügungs-Gesetz von Österreich, 2006, §7, Part 1, Part 2, Part 3 (5 years); Patientenautonomie- und Integritätsschutzgesetzprojekt von Deutschland, 2005, §1(2)2 (2 years)). The provision of the term of the validity should be sustained since it has an effective function of control over the significance and importance of the will of the patient. Therefore it could be concluded that the will of the patient expressed in advance ceases even if the provided purpose is not achieved due to the subjective or objective circumstances in the cases precisely and exhaustively defined in the law.

The will of the patient expressed in advance is governed not sufficiently in the legislation of Latvia. Though considering the significance of this institution, it is necessary to elaborate detailed principles of the will of the patient expressed in advance in accordance with the legislation system of Latvia and to incorporate them into the legal regulations.

The author proposes the following solution:

To amend the Law on the Rights of Patients with the Article 6² to be read as follows:

„Article 6². Will of the patient expressed in advance (the order of the patient)

- (1) Any person having a legal capacity to act has the right to express his will (the order of the patient) regarding the medical treatment in advance thus defining the medical treatment of the patient, handling the body of the deceased patient after death and the information concerning the patient.
- (2) The patient draws up the will in writing, dates it and registers in the Patient Order Registry. The holder of the Registry is the Ministry of Health of the Republic of Latvia.
- (3) The will of the patient expressed at the current moment has a priority over the order of the patient.
- (4) The patient has the right to draw up the order just in case, disregarding the time the order will take an effect.

- (5) The order of the patient becomes valid since the moment it is registered in the Patient Order Registry. The order is determined by the occurrence of the condition what for it was drawn up.
- (6) The patient with the order can refuse the resuscitation treatment methods or the life sustaining medical treatment in the circumstances when:
 - 1) death of the patient is inevitable or
 - 2) illness, old age, accident has resulted in the health condition of the patient when he/she is unable to take physical and mental care of himself/ herself independently.
- (7) With the order the patient can appoint his own substitute to make decisions about the medical treatment in the case the patient becomes legally incapable to act. The person appointed by the order of the patient has the rights to apply in writing to the custody court in order to be confirmed as a contractual substitute of the patient.
- (8) The order of the patient is binding to the persons related to the medical treatment of the patient and the persons having liability to comply with the will of the patient.
- (9) The patient has the rights to withdraw the order informing in writing the Patient Order Registry at any time.
- (10) The court can rule on the termination of the order of the patient after receiving the application of the persons responsible in the case when due to the development of the medicine the new medical treatment possibilities have occurred and the patient being acquainted with these possibilities would have made another decision.
- (11) The validity term of the order of the patient is 5 years.
- (12) The patient has the right to renew the order of the patient informing the Patient Order Registry in writing.
- (13) The prescription period of the order of the patient is suspended for the term, while the patient is not able to express his will regarding the medical treatment.”

Conclusions and suggestions

The regulation of the will of the patient expressed in advance is controversial and not sufficient in the legislation of Latvia. It is necessary to develop and to implement the detailed regulation of this institution as well as to create the national registry of the will of patients expressed in advance, thus, the civil protection of the will of the patient would be improved.

Analysing the legal nature of the patient's will expressed in advance and taking into account its peculiarity, the content boundaries of this particular type of the expression of the patient's will were defined identifying the extent of the patient's self-determination. Assessing various possibilities of choosing the term defining the patient's will expressed in advance, the author has sustained the most appropriate version of the term considering both national and international legal regulation, and notions of the legal doctrine. Another issue of a similar significance that was analysed in the research were the methods used in the legal practice of the world countries to determine the patient's will expressed in advance; the author has analysed and offered the determination method, which is the most appropriate for the legal system of Latvia. In the conclusion, types of termination of the patient's will expressed in advance and their legal consequences were analysed.

Furthermore, the author proposes an applicable project of the amendments to the legal regulations in order to implement the theoretical conclusions of the research related to the patient's will expressed in advance into the legal system of Latvia.

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PACIENTA IEPRIEKŠ IZTEIKTĀ GRIBA UN TĀS TIESISKĀS SEKAS

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Kopsavilkums

Latvijas normatīvajos aktos pacienta iepriekš izteiktā griba regulēta strīdīgi un nepietiekami, nosakot tikai pacienta iepriekš izteiktās gribas konstatācijas veidu netieši un nepietiekamu norādi uz minētā pacienta gribas izteikuma saistošo spēku.

Pētījuma mērķis ir veikt tiesisku analīzi pacienta iepriekš izteiktās gribas institūtam, konstatēt ar to saistītos tiesiskos trūkumus un piedāvāt konkrētus risinājumus konstatēto trūkumu novēršanai. Minētā mērķa sasniegšanai, pētījumam ir izvirzīti sekojoši uzdevumi: 1) analizēt pacienta iepriekš izteiktās gribas tiesisko raksturu; 2) pētīt pacienta iepriekš izteiktās gribas saturu un terminu; 3) izvērtēt pacienta iepriekš izteiktās gribas konstatāciju un tās izbeigšanos. Rakstā ir izmantotas šādas pētniecības metodes: semantiskā metode, gramatiskā metode, analītiskā metode, vēsturiskā metode, salīdzinošā metode, sistēmiskā metode, teleoloģiskā metode.

Autore pētījuma rezultātā izstrādāja detalizētus pacienta iepriekš izteiktās gribas principus atbilstoši Latvijas tiesību sistēmai, kas ieviešami normatīvajā regulējumā, tādējādi pilnveidojot pacienta gribas civiltiesisko aizsardzību. Analizējot pacienta iepriekš izteiktās gribas tiesisko raksturu un ņemot vērā tā specifiku, tika noteiktas šī pacienta gribas izteikuma veida satura robežas, konkretizējot pacienta pašnoteikšanās apjomu. Vērtējot starp dažādām iespējām termina izvēlei, apzīmējot pacienta iepriekš izteikto gribu, autore pētījumā izvirzīja atbilstošāko termina variantu, ņemot vērā gan nacionālo un ārvalstu normatīvo regulējumu, gan tiesību doktrīnā paustās atziņas. Ne mazāk būtisks jautājums, kas tika analizēts pētījumā, ir pasaules valstu praksē pastāvošās pacienta iepriekš izteiktās gribas konstatācijas metodes, autorei izkristalizējot un piedāvājot visatbilstošāko minēto konstatācijas metodi Latvijas tiesību sistēmai. Un noslēgumā tika izvērtēti iespējamie pacienta iepriekš izteiktās gribas izbeigšanās veidi un to tiesiskās sekas. Autore piedāvā arī atbilstošu normatīvā akta grozījumu projektu, pētījumā pausto teorētisko atziņu praktiskai iedzīvināšanai Latvijas tiesību sistēmā saistībā ar pacienta iepriekš izteikto gribu.

Atslēgas vārdi: gribas konstatācija, gribas reģistrs, iepriekš izteiktā griba, patients.

ASSESSMENT OF DIRECT TAXATION INSTRUMENTS

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Abstract. *Creation and development of a favourable business environment in regions is unthinkable without an appropriate tax system. The research study aims to assess the direct tax system in Latvia comparing it with the tax systems in Estonia, Sweden, Finland and Denmark in order to detect common features and differences, as well as to learn the experience that could be adopted in Latvia. The research tasks are to evaluate criteria of the tax policy and to analyse development directions of the direct tax system. The monographic descriptive method, statistical methods in economics, methods of logic and construction are used in the research.*

Relationships between the elements of the direct tax are explored, and differences between them are determined in the research; the conclusions that could be considered for the tax system improvement in Latvia are made. Evaluation of the direct tax systems in other countries shows that only distributed profit is subject to the corporate income tax in Estonia. The progressive rates are applied to the personal income tax; non-taxable income is higher; as well the tax distribution among budgets differs. In its turn, social security contributions depend on the financing arrangements of the services provided, and the property tax rates are determined by the municipalities, and they are affected by the location of the property and purpose of its use.

Keywords: *income taxes; municipal taxes; property tax; social insurance contributions; tax policy.*

JEL Code: *G28, H24, H25.*

Introduction

Dynamics of economic development is influenced not only by expenses, but by the mechanism of budget revenues as well. The tax system is one of the leverages the state can use to influence actively the economic processes in the country, directing the flow into the favourable direction. Of course, determining taxes, the state has to reckon with the public interests and the economic situation. The tax rate and the sum of resources to be paid into the total state budget have direct impact on the social and economic development of the society.

As provided in the National Development Plan of Latvia, in order to stop the tendency for centralization, it is necessary to increase economic activity in regions, attracting and using the resources of the surrounding areas by supporting the entrepreneurship development and promoting the mobility of the population (National Development Plan, 2012). Development of the regions brings up an issue of fiscal decentralization and setting the local taxes for the municipalities to be independent as

well. G.Davulis (Davulis, 2009) in his research has studied this problem in Lithuania, however, it is still an issue in Latvia as well.

Creating a tax system, each country has to consider not only the increased revenue collection from taxpayers, but it also has to be able to develop the business environment and to promote the people's prosperity by reducing differences in the regional development.

The research study aims to assess the direct tax system in Latvia comparing it with the tax systems in Estonia, Sweden, Finland and Denmark in order to detect common features and differences, as well as to learn the experience that could be adopted in Latvia.

Research objectives: 1) to assess the criteria of tax policy; 2) to analyse development directions of the direct tax system.

Research hypothesis: using more effective elements of the tax system, Latvia could improve the economic activity and advance the arrangements for funding the regions.

The monographic descriptive method, statistical methods in economics, methods of logic and construction are used in the research. Methodological issues are addressed on the basis of the theoretical research literature, research papers and publications by Latvian and foreign authors, statistical data, as well as the legal regulations on the taxation.

The research study is conducted for the period from 2012 to 2015, though, on the certain issues the study period is different.

Novelty of the research – the relationship between the elements of the direct taxation instruments are explored, the differences detected, and the conclusions that could be used for improvement of the tax system in Latvia are made.

The author will examine the following direct taxes: the corporate (enterprise) income tax, the personal income tax, social security contributions, and the real estate (immovable property) tax. The following elements of the taxation instruments will be discussed: taxpayers, the taxable object, rates, and the payment procedure. In the research author will compare five the Baltic Sea region countries: Latvia, Estonia, Sweden, Finland and Denmark.

Evaluation of criteria of the tax policy

Tax policy determines an overall situation in the taxation field, the elements of taxation mechanism to be used, and the status of the tax system. Tax policy acts as one of the governing instruments in the creation of competitiveness of the country. K.Ketners and S.Titova review the tax policy in two aspects:

- 1) aspect of competitiveness – providing the state support for innovation and sustainable economic growth, granting investments for the economic infrastructure, reducing the interference of the state into private life, excluding double taxation;
- 2) aspect of social and political principles – respecting social justice, securing economic independence, and tax transparency (Ketners et al., 2009).

In the draft Tax Policy Strategy of Latvia for 2015 – 2018, it is stipulated that, in respect of direct taxes, it is intended to further reduce the personal income tax rate and to reduce the tax burden in the low-wage sector, increasing the non-taxable minimum and the minimum wage. It is assumed that the corporate (enterprise) income tax will consolidate the tax concession system and will enhance its effectiveness, without changing significantly the total amount of allowances and exemptions (LDDK, 2014).

If the government wants to control the state budget, the increase of direct taxes would be quite undesirable, yet the increase of indirect taxes would be less problematical (Pereira et al., 2011). Thus, the use of the tax policy is based on the government functions or role of the state in the economy. The author agrees with L.Kavale's point of view that the tax policy should be implemented regardless of the financial and budgetary processes in the country. In Latvia, it is necessary to be done in order to improve quality and efficiency of the tax reform based on economic calculations and justified prognoses, excluding the influence of the political factors as much as possible (Kavale, 2011).

Tax burden is considered to be a criterion to characterize the national tax policy, which is expressed as percentage (%) of the gross domestic product (GDP). A significant indicator of the tax policy is the tax structure (Ketners, 2007). The author has carried out a comparison of tax burdens and tax structures, as well as GDP per inhabitant (Table 1).

In Latvia, the tax burden is the lowest and, at the same time, GDP per capita is the lowest, which means lagging behind Denmark and Sweden up to 4 times. In all countries, the main tax revenues comprise direct taxes together with the social security contributions; the highest share of those taxes in the total sum of tax revenues is in Finland – 66.8%, in Denmark – 65.5%, and in other countries 56% - 58%. Analysing the situation in Latvia, it is evident that the labour taxes (the personal income tax and state social security contributions) comprised 14.1% of the total tax burden, which was 27.9% in 2012. This number indicates the main problem of tax policy in Latvia. L.Kavale suggests using the following tax policy instruments to address the problem: non-taxable

minimum and tax reductions (Kavale, 2014). The author agrees that these tax policy instruments have not been assessed in Latvia.

Table 1 Tax revenue, tax structure and GDP at market prices in PPS per inhabitant, 2012
(Eurostat, 2014a; Eurostat, 2014b)

| Indicator | Latvia | Estonia | Denmark | Finland | Sweden |
|---|--------|---------|---------|---------|--------|
| Total tax revenue, % of GDP | 27.9 | 32.5 | 48.1 | 44.1 | 44.2 |
| Direct taxes, % of GDP | 7.7 | 6.8 | 30.6 | 16.3 | 18.3 |
| Social contributions, % of GDP | 8.4 | 11.5 | 0.9 | 13.1 | 7.2 |
| Direct taxes, % of total taxation | 27.6 | 20.9 | 63.6 | 37.0 | 41.4 |
| Social contributions, % of total taxation | 30.2 | 35.3 | 1.9 | 29.8 | 16.2 |
| GDP at market prices, PPS per inhabitant, EUR | 10900 | 13300 | 44900 | 36900 | 44500 |

In Latvia, the tax burden is relatively low, and the regional disparities become apparent as the development of one particular region, which includes the capital city of Riga. The Territory Development Index, which indicates higher or lower development of territories as compared with the average of the national socio-economic development level, was positive (0.926) only in Riga region, while in the other regions it was with a minus sign in 2013 (VRRRA, 2014). In their study, E. Zelgalvis and A.Joppe remark that the Territory Development Index was positive only in Riga region and constantly negative in the other four regions of Latvia starting already from 1999 (Zelgalvis et al., 2014). The Territory Development Index for the planning regions is calculated using eight indicators, including personal income tax amount per inhabitant and per individual merchant, number of commercial enterprises per 1000 inhabitants (Regional Development., 2014), which are related to personal income tax revenue and the activity of performers of economic activities. The Territory Development Index is an indicator which is considered when granting additional funding for the regions. In their study, R. M. Boboc and I. I. Alecu mention that the absorption of the EU funds should be linked to reducing dependence on the foreign loans, growth of employment and labour productivity, diversification of economic and capital market funding (Boboc et al. 2013). Hence, the regions should not rely only upon the EU funds, but rather should enhance the activity of citizens and businesses. In its turn, increased inhabitants' and businesses' activity of leads them to facing tax payments; the latter need to be improved as well.

There are two main functions of tax payments – the fiscal function and the economic regulatory function. Tax revenues constitute the main part of the national income; therefore they impact the economic growth or decline, since being the source of financing of public goods. From the point of view of the economic regulation, the tax policy is used to affect business activities, employment of citizens, distribution of state, municipal, and household incomes. In regional economy, the taxes are used to support certain industries or regions.

The tax structure in terms of division between the state, municipal, and social security budgets is shown in Figure 1.

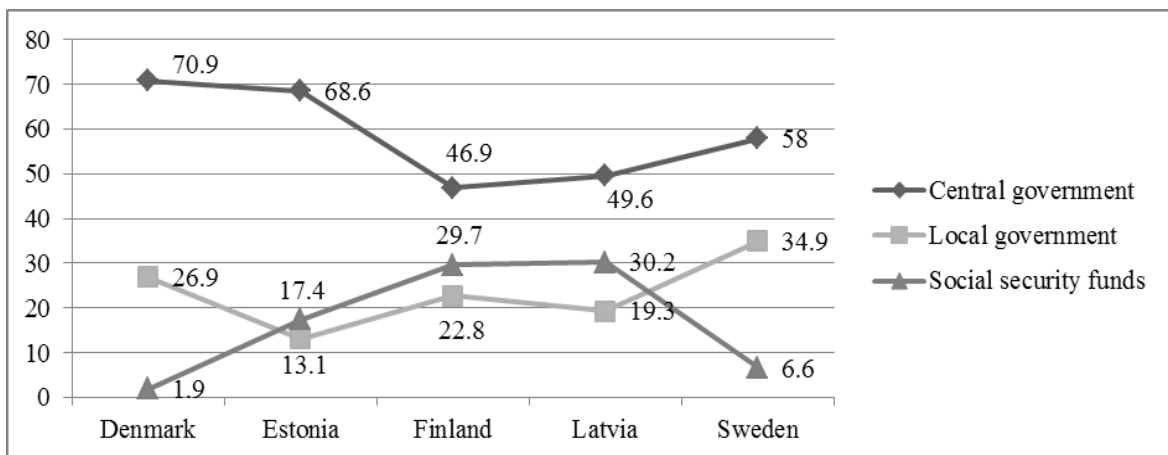


Fig.1 Tax structure by the level of government, 2012 (% of total taxation) (Eurostat, 2014a)

It can be concluded that the lowest percentage of tax revenues for the municipal budgets is provided in Latvia and Estonia, the highest – in Sweden (34.9%). However, the largest sum of tax revenues transferred to the state budget is in Denmark and Estonia, but to the social security fund – in Latvia (30.2%) and in Finland (29.7%). It indicates that the tax revenue distribution between budgets varies in different countries.

Analysis of the direct tax system's development directions

In accordance with the taxation policy realized in the country, the tax system is designed considering the importance of its set of instruments consisting of a few mandatory elements that should be stipulated in the tax legislation. Although the tax elements are the same, though, in each country, they are used differently, which can be explained by several factors: different national development levels; different decisions on the state role in the economy; different priorities, etc. (Kavale et al., 2008).

Most often, taxes are grouped by particular methods of their deduction – direct and indirect taxes. Direct taxation is a payment to the state from the individual or corporate income, property, or wealth. Direct taxation is based on the principle of solvency, though sometimes they are considered as a disincentive factor, because working and earning more means paying more in taxes (Business Dictionary, 2015). Most of discussions are raised by the issue about the negative impact of taxation on stimulating the economy, since the taxes reduce the commercial or wage incomes of individuals. It has to be admitted that the prior goal of individuals' activities is to earn money, and all factors contributing to the increase of earning activate people's work (Rešina, 2011).

The European Union (EU) legislation in the field of the direct taxation is left to be governed by each Member State. Double taxation has to be prevented in the field of personal income taxation. In the field of corporate income taxation, the EU approach is to eliminate barriers in the internal market and to ensure fair tax competition (European Union, 2015).

The Corporate Income Tax (CIT) is paid by legal entities from the income generated by their economic activities. The state should be interested not only in collecting the tax, but also in creating economic environment that would encourage entrepreneurs to attract investments and to invest excess funds for the enterprise development. The rates mostly are determined according to the principle of horizontal equity. However, each country has its own rules how the taxable income that is subject to the CIT is calculated, hence, the share of the tax paid into the budget differs (Table 2).

Table 2 Corporate income tax rate and effective rate
(FM, EMTA, Nordisk e-tax, 2015)

| Country | Tax rate, 2015 | Effective rate, 2012 |
|---------|----------------|----------------------|
| Latvia | 15.0 | 6.4 |
| Estonia | 20.0 | 6.2 |
| Denmark | 23.5 | ... |
| Finland | 20.0 | 17.5 |
| Sweden | 22.0 | 21.9 |

The corporate income tax rate in **Latvia**, compared with other countries, is the lowest; in addition, a variety of incentives are provided reducing the tax by more than a half. Tax incentives can be divided into 4 groups – nine incentives for the promotion of investments, five incentives for various economic sectors, four incentives for social purposes, and two more reductions (**Pūle, 2014**). The largest amount comprises tax

incentives for the promotion of investments, the loss carry forward, and accelerated procedures for writing-off the fixed assets depreciation using the double-declining balance method.

An estimated CIT shall be paid into the state budget within 15 days after submission of the declaration. During the year, advance payments that are calculated on the basis of the previous year's estimated CIT, adjusted for the inflation rate, are paid until the 15th date of each month.

The tax system in **Estonia** is based on the flat income tax that was introduced in 1994; it is applied to incomes of both individuals and legal entities. Until 2004, the tax rate was 26% and was expected to be gradually reduced to 18% by 2012. In 2008, due to the crisis, the further tax reduction was postponed for an indefinite period. The rate has been reduced from 21% to 20% in 2015.

The corporate income tax system was reformed in 2000 with the aim to provide more funding for investments and to accelerate economic growth. The main aim of the reform was to postpone the taxation of the corporate income until the distribution of profit. Thus, the tax rate on retained earnings is 0%, and, then, the distributed gross profit is subject to tax at a total rate of 20%.

Since the tax period for legal entities is a month, the income tax is paid on a monthly base until the 10th day of the month following transferring it to the state budget.

In **Denmark**, in accordance with the political agreement on the Growth Plan of Denmark adopted in 2013, the corporate tax rate has been reduced to 23.5% since 2015, and to 22% since 2016 (Business-Friendly, 2015).

To estimate profit, business costs are usually deductible if they have incurred to generate income. Capital expenditures are not deductible, except for small acquisitions with the purchase price less than DKK 12 600 (in 2014). Only 25% of the promotional expenses are tax-deductible. Depreciation of the assets is calculated on a straight line basis: buildings used for business purposes in 25 years; machinery and equipment (a rate up to 25% per year); vessels, drilling rigs, aircraft, and trains (a rate up to 17% per year); infrastructure (a rate up to 7% per year). Inventories are valued according the FIFO method. The value of the purchased intangible assets is written off on a straight-line basis during 7 years. Research and development costs (R&D) in most of the areas are deductible in the calculation of the tax, or the depreciation is calculated for those. Computer software acquisition costs may be fully deducted in the year of acquisition.

The corporate income tax declaration must be submitted each year, not later than 6 months after the end of the income year. The corporate

income tax is paid in advance in two equal parts – until 20 March and 20 November. The advance payment is calculated as 50% of the tax paid in the last 3 years. The corporate income tax is not a local tax, though the municipalities receive a share of income tax revenue.

In **Finland**, the corporate income tax rate is applicable on the business profit, which is calculated subtracting all expenses that have incurred in order to gain or to maintain business revenue. Exceptions are some expenses related to the capital growth and dividends, which are not included in the tax base, as well as the expenses related to the non-taxable income.

Depreciation of capital assets is calculated by the geometrically declining depreciation method; the maximum annual rate for machinery and equipment is 25%, for buildings – from 4% or 7%. The acquisition costs of the intangible assets are written off using the straight-line method in 10 years. Losses may be carried forward to the income of the next 10 fiscal years.

During the year, companies are required to make 12 monthly CIT advance payments. The corporate income tax is not a local tax, though the municipalities receive a share of CIT revenue.

In **Sweden**, a corporate income tax is levied on the income of a resident incurred in Sweden and abroad, and income of a non-resident incurred in Sweden. The standard rate of the corporate income tax is 22.0% (reduced from 26.3% since 2013).

The classical system that is based on a broad tax base with a relatively low tax rate is applied to the CIT. The same basic rules apply to all companies irrespective of their size and legal status. Losses of the companies can be carried forward to profits of the following years without time limit.

The author notes that the CIT rates tend to decline; different capital investment depreciation methods are used in different countries; the rates and the applicable exemptions differ as well. In Denmark and Finland, a share of the CIT is transferred to the local government budgets. In Latvia, a diversion of the CIT to the municipal budgets has existed twice – in 1922-1940, when the commercial and industrial tax had been divided equally between the state and local government budgets, and in 1941-1943, when the municipal budgets used to receive a share of the profit tax (Zvejnieks, 1998).

In fact, tax incentives are the only elements of taxation, which is directly used for regional economic stimulation to equalize competitiveness between regions. In Latvia, up to 2013, a tax incentive for the development of regional areas was a CIT reduction on investments in the capital assets in the specially supported areas, and it is

still applicable for the companies operating in the special economic zones.

Natural persons' Personal Income Tax system is based on the principle of justice, which can be implemented both as a vertical and as a horizontal equity principle. In Latvia and Estonia, the personal income tax is designed in accordance with the horizontal equity principle, which implies the application of a proportional rate for all taxpayers. However, in Denmark, Finland, and Sweden, the vertical equity principle is used, which implies that the taxpayers with higher incomes pay a higher tax rate in accordance with the progressive scale.

The main differences in the **personal income tax** (PIT) systems are related to the rates and amount of a non-taxable minimum, as well as to the distribution of tax incomes between the state and local budgets (Table 3).

Table 3 Personal income tax rates and the non-taxable minimum, 2015
(FM, EMTA, Nordisk e-tax, 2015)

| Country | Highest rate, % | Non-taxable minimum, EUR |
|---------|-----------------|--------------------------|
| Latvia | 23.0 | 900.00 |
| Estonia | 20.0 | 1848.00 |
| Denmark | 55.6 | ~5813.00 |
| Finland | 51.5 | 16500.00 |
| Sweden | 56.9 | ~ 1400.00 – 3650.00 |

Among the countries reviewed, the lowest non-taxable minimum and a moderately high proportional rate of 23% are observed in Latvia. There is a lower rate of the capital gains tax – 15% and on the income from the rest of the capital – 10%. In Latvia, the PIT paid in 2015 is divided between the state and the local government budgets in the following proportion: 20% to the state budget and 80% to the municipal budget.

In **Estonia**, all three types of personal incomes – income from paid employment, income from business and capital gains – are taxed at 20% tax rate. Since 2015, the tax rate has been reduced from 21% to 20% while increasing the non-taxable income from EUR 1 728 in 2011-2014 up to EUR 1 848 starting from 2015.

The personal income tax is distributed between the state and the local budgets; for example, in 2015, a share of 11.4% was transferred to the municipal budget and the rest – to the state budgets (EFM, 2015).

In **Denmark**, the personal income tax is formed of a number of taxes. The most important of them are:

1. the labour tax, often called the gross tax. Labour market contribution is 8% of the entire income, deducting employment benefits. The labour tax is not paid on the income from investments and on the benefits;
2. the basic tax is 8.08% of the personal income (the taxable minimum in 2015 – DKK 43 400);
3. the highest tax – a rate of 15% on a personal income above DKK 459 200 in 2015. The rate is reduced if the “tax ceiling” reaches over 51.95% (Deloitte.com, 2015);
4. a proportional rate of the local taxes, though they differ by particular municipalities. The average local personal income tax rate is 25.6% (including the church tax, on average 0.7%) (Statistics Denmark, 2015).

In **Finland**, the right to collect income taxes belongs to the state and municipalities, the Evangelical Lutheran Church and the Orthodox Church. State income taxes are levied on the personal income consisting of wages, investments and the estates of deceased persons. The state tax rate ranges from 6.5% to 31.75%, depending on the amount of income. The municipal tax rate ranges from 16.5% to 22.5%, the church tax rate – from 1% to 2% to be paid by members of both national churches. The municipal income tax is levied at a flat rate on the income and the estates of deceased persons. In addition, there is a social security contribution called “health insurance premium” paid by the individuals at a rate of 2%. Since 2013, the natural persons in addition have to pay a state duty to the pension fund equivalent to 6%. The additional tax is collected on the incomes exceeding EUR 45 000.

The tax on capital gains is 30% and is transferred to the state budget. The tax rate on the revenue from capital that exceeds EUR 40 000 is 32%.

In **Sweden**, the residents have to pay the state and municipal personal income tax on all incomes earned in Sweden and abroad.

On the income from economic activities, 25% is to be paid into the municipal budget, but the state tax is progressive. The state income tax is 20% on the taxable income exceeding SEK 430 200 (in 2015) and 25% on the incomes above SEK 616,100 (EUR 69,837). After withholding the tax, every municipality collects taxes to be charged to the local budget – 29 to 34%, depending on the municipality. Still, the church tax is to be paid and the burial costs at a rate of about 1-2%.

The capital gains are taxed at a flat rate of 30% determined by the state, not subject to the non-taxable amount.

A taxpayer may deduct the taxable minimum – a personal tax allowance at an amount of SEK 13,100 to SEK 34,300 from the taxable

income, if, during the year, the person has had an unlimited liability on tax obligations. In 2015, a standard allowance is SEK 18,800 in relation to the taxable income up to SEK 44,400. The allowance is being gradually increased up to the maximum of SEK 34,300 in relation to the certain income groups and then gradually decreased to SEK 13,100 on the incomes exceeding SEK 349,000.

Comparing both income taxes, it can be concluded that different tax regimes are applied to the performers of economic activities, depending on the chosen form of the enterprise; the above mentioned is outlined by K. Edmark and R. Gordon in their study on companies in Sweden. Moreover, they point out that the tax incentives are important for the companies, too (Edmark et al., 2013). It is in sight in Latvia as well, since the rate of the corporate income tax for companies is by 8% lower than the one paid by personal income tax payers.

The other tax that uses the personal incomes of natural persons as a tax base is the state compulsory social security contributions. Revenue accruing from these payments is used for specific purposes – public financing of the social security system. Common types of the social security are: pension insurance; unemployment insurance; work accident insurance; disability insurance; maternity and sickness insurance; parents' insurance.

State social insurance contribution rates primarily depend on the type of insurance the person is insured for. Similarly, in the reviewed countries, the breakdown of the rates paid by employer and employee differs (Table 4).

Table 4 Social security contributions rate, 2015
(FM, EMTA, Nordisk e-tax, 2015)

| Country | Rate, % | | |
|---------|---------|-----------|-----------|
| | Total | Employers | Employees |
| Latvia | 34.09 | 23.59 | 10.50 |
| Estonia | 35.00 | 33.00 | 2.00 |
| Denmark | - | - | DKK 900 |
| Finland | 28.61 | 19.47 | 9.14 |
| Sweden | 38.42 | 31.42 | 7.00 |

In **Latvia** since 2014, the maximum annual amount, according to which the state social insurance contributions are paid, has been renewed, comprising EUR 48,600 per year in 2015; a minimum amount of the contributions to be paid by a self-employed and voluntary self-insured person comprise twelve minimum monthly wages as defined by the Cabinet of Ministers (4 320 EUR in 2015).

In **Estonia**, the social tax rate is 33%, of which 20% is allocated to the state pension insurance fund and 13% to the health insurance fund. The employee pays in addition 2% as an unemployment insurance contribution.

There is no maximum amount of the social tax contributions determined, it depends merely on the incomes of person; though, the minimum payment to be paid regardless of the amount of incomes is defined. In 2015, the minimum payment per employee is fixed at EUR 117.15 per month; for the self-employed person the minimum payment is EUR 1 405.80 per year.

In **Denmark**, social security payments are part of the state income tax. The employee shall pay a health contribution of DKK 900 (Deloitte.com, 2015).

In **Finland**, the average contribution of the employer is 17.35% of the employee's wage for the pension insurance and 2.04% for social security. The employee's contribution is usually 2.04% for the health insurance and 5.75% - 7.1% for the pension and unemployment insurance. The unemployment insurance contribution is 0.5%, and the pension insurance contribution is 7.05%, while for people over 53 years it is 5.55%. The health insurance contributions for medical care are paid by unemployed persons as well.

In **Sweden**, the employer's contributions consist of the following: old-age pension contribution, the survivor's pension contribution, health insurance, parental insurance, occupational accident insurance, and unemployment contribution, totalling 31.42%; in addition, the employee pays the pension insurance contributions of 7%.

The real estate (immovable property) tax is mainly the tax paid into the municipal budget. This tax is levied on land and/or buildings, as well, in some countries, on engineering structures. The property tax rates are generally determined as a % of the property's cadastral (market) value.

In **Latvia**, the real estate (immovable property) tax is paid on buildings, land and engineering structures at the rates determined by the municipalities. The rate may vary from 0.2% to 3%, depending on the taxable object (FM, 2015).

In **Estonia**, the entire land area is subject to the land tax. The annual rate of the land tax varies from 0.1% - 2.5%, depending on the cadastral value of land. Rates are set by the municipalities (EMTA, 2015).

In **Denmark**, the real estate tax consists of the land and the property tax. The property tax is calculated on the basis of the real estate assessment (paid for the owned house or apartment). The property tax rate is 1% if its value is equal to EUR 408,000, and 3% if the property is

valued above EUR 408,000. The immovable property value is revalued every second year. The land tax rate varies from 1.6% to 3.4%, depending on the municipality where the land is situated (Nordisk e-tax, 2015).

In **Finland**, the real estate tax is defined as a local government council tax, calculated as a % of the taxable value of the property. Municipalities may set the tax rates within the following ranges: the general real estate tax from 0.80 to 1.55%; the tax on residential houses from 0.37 to 0.80%; the tax on other property from 0.80 to 1.55%; the tax on the building land from 1.00 to 3.00% (Nordisk e-tax, 2015).

In **Sweden**, the real estate tax, depending on the type of use of the property, is 0.5% of the assessment value on the industrial property or 1% of the assessment value on commercial buildings. The rate on the residential housing is determined by the municipalities. If the property is situated in Sweden, the rate set by the municipality is 0.75% of the property's cadastral value, but not more than SEK 7 262 per year (Nordisk e-tax, 2015).

In order to receive budget tax revenues, the compliance with the tax payment regime is essential. In Estonia, tax evasion is more frequent in the construction, agriculture, and service sectors. Tax evasion in these sectors may be a result of the fact that small enterprises operating in these sectors more often use to pay wages "under the counter" and employ staff on verbal contracts (Kriz et al., 2007). Similar problems exist in Latvia as well.

Conclusions and Suggestions

In Latvia, there is the lowest tax burden and, at the same time, the lowest GDP per capita, which means lagging behind Denmark and Sweden up to 4 times. Main tax revenues comprise direct taxes along with the social insurance contributions. In Latvia, labour force taxes comprise half of the total tax burden, which points out one of the tax policy problems. The least tax revenues received by the municipal budgets are in Latvia and Estonia, the most – in Sweden (34.9%). However, the most tax revenues are transferred to the state budget in Denmark and Estonia, but the most tax revenue to the social security fund is transferred in Latvia (30.2%) and Finland (29.7%) indicating that there are differences in the tax revenue distribution between budgets among the countries.

The CIT rates tend to decline; the method for calculating capital investment depreciation, the rates provided by the legislation, and the applicable exemptions differ over the countries. In Estonia, a deferred taxation regime exists, since only distributed profits are taxable. In Denmark and Finland, a share of the corporate income tax is transferred

to the municipal budgets. In Latvia, taxation only on the distributed profits should be introduced as well, thus motivating entrepreneurs to attract investments and to invest excess funds in the enterprise development.

The PIT is one of the sources to finance functions of local governments, providing part of the municipal budget revenues. In Latvia and Estonia, the municipal budgets receive a fixed fiscal percentage of the total revenues, which is larger in favour of the municipalities in Latvia. However, in Denmark, Finland, and Sweden, the municipalities determine the tax rate on the taxable income within the framework of the law. In Latvia, there is the lowest non-taxable minimum subject to the PIT, which should be assessed and increased in Latvia as well.

Social security contributions depend on the financing arrangements of the services provided; however, the property tax rates are set by the local governments and depend on the property location and purpose of its use.

An important aspect is the compliance with the tax regime; in Latvia, not only tax administration should be improved, educational activities should be organized to motivate the individuals to pay taxes.

Reducing the labour force taxes in Latvia, taxation of the corporate income prior to the distribution of profit, improving tax administration, as well as the revision of the tax-sharing between the state and the municipal budgets, could improve the economic activity and to advance the arrangements for funding the regions, thus proving the author's hypothesis.

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TIEŠO NODOKĻU INSTRUMENTĀRIJA IZVĒRTĒJUMS

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Kopsavilkums

Veidojot nodokļu sistēmu, katrai valstij ir jādomā ne tikai par lielāku ieņēmumu iekasēšanu no nodokļu maksātājiem, bet jāspēj attīstīt uzņēmējdarbības vidi un veicināt tautas labklājību, samazinot atšķirības reģionu attīstībā, kas ir aktuāla problēma Latvijā. Pētījuma mērķis ir izvērtēt tiešo nodokļu sistēmu Latvijā, salīdzinot to ar Igaunijas, Zviedrijas, Somijas un Dānijas nodokļu sistēmām, lai atklātu kopējo un atšķirīgo, kā arī uzzinātu kādu pieredzi varētu pārņemt Latvija. Pētījumā izmantota monogrāfiski aprakstošā metode, statistiskās metodes ekonomikā un loģiskās un konstruktīvās metodes.

Pētījumā izpētītas sakarības starp tiešo nodokļu instrumentārija elementiem, atklātas atšķirības un izdarīti secinājumi, ko Latvija varētu izvērtēt nodokļu sistēmas pilnveidošanai. Latvijā ir zemākais nodokļu slogs un vienlaicīgi arī IKP uz vienu iedzīvotāju, kas pat 4 reizes atpaliek no šī rādītāja Dānijā un Zviedrijā. Darbaspēka nodokļi sastāda pusi no kopējā nodokļu sloga, kas parāda vienu no nodokļu politikas problēmām. Starp izpētītajām valstīm pastāv atšķirīgs nodokļu ieņēmumu sadalījums starp budžetiem. Pašvaldības budžets no nodokļu ieņēmumiem vismazāk saņem Latvijā un Igaunijā, bet visvairāk Zviedrijā (34,9%). Igaunijā UIN darbojas atliktā nodokļa režīms, jo ar nodokli tiek aplikta tikai sadalītā peļņa. Dānijā un Somijā daļu no UIN ieskaita pašvaldību budžetos. Latvijā būtu jāievieš arī nodokļa piemērošana tikai sadalītajai peļņai, lai uzņēmēji būtu ieinteresēti piesaistīt investīcijas un ieguldīt brīvos līdzekļus uzņēmumu attīstībai. Latvijā un Igaunijā pašvaldību budžeti saņem

noteiktu fiskālo procentu no kopējiem IIN ieņēmumiem, kas Igaunijā ir lielāks par labu pašvaldībām. Savukārt Dānijā, Somijā un Zviedrijā pašvaldības nosaka IIN likmes no apliekamā ienākuma. Latvijā ir pats zemākais ar IIN neapliekamais minimums, ko vajadzētu izvērtēt un paaugstināt.

Svarīgs moments ir nodokļu maksāšanas režīma ievērošana, kur Latvijā būtu jāuzlabo ne tikai nodokļu administrēšanas darbs, bet arī jāorganizē izglītojoši pasākumi, lai ieinteresētu personas maksāt nodokļus.

Atslēgas vārdi: ienākuma nodokļi; īpašuma nodokļi; nodokļu politika; pašvaldības nodokļi; sociālās apdrošināšanas iemaksas.

DEVELOPMENT OF PROFESSIONAL COMPETENCIES OF HOSPITALITY INDUSTRY SPECIALISTS WITHIN THE FRAMEWORK OF ACQUISITION OF EDUCATIONAL MODULE “ORGANIZATION OF HOSPITALITY SERVICES”

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Abstract. *According to the SWOT analysis on the Latvian Tourism Marketing Strategy 2010-2015 carried out by the Tourism Development Agency in 2010, the lack of skilled labour force in tourism and hospitality industry, as well as the low level of professional qualifications are mentioned as one of the potential threats. The aim of the research is to examine and analyse the development of professional competencies of hospitality industry specialists within the framework of completion of the interactive educational module “Organization of Hospitality Services”. The tasks of the research are: to examine the theoretical aspects of formation, application and significance of interactive educational modules; to determine requirements, aim, structure and position of the interactive educational module in the education process. In the paper, the theoretical aspects of formation of interactive educational modules are examined; the content of the interactive educational module “Organization of Hospitality Services”, which is implemented within the framework of the study programme “Hospitality Management”, is offered; requirements, aim, structure and position of interactive educational module in the education process are determined. The opportunities of application of the interactive educational module “Organization of Hospitality Services” are wide enough: it may be applied not only in the training process of hospitality industry specialists, but also in order to raise the qualification level of managers at the intermediate level. A pilot research study concluded that completion of theoretical studies is not sufficient enough in order to acquire professional competencies at the highest level. The authors of the paper suggest acquiring practical skills, which is extremely important. The research methods: the logical and constructive methods, the scientific induction method, synthesis, document analysis, the monographic method, the graphic method.*

Keywords: *educational module, guest service, hospitality, interactivity, professional competences.*

JEL code: A2

Introduction

Creation of the common European Higher Education Area, achievement of conformity between the academic quality and

international labour market needs, increase of the employment among the graduates, as well as development of international and cross-cultural competencies have become especially important issues. Development and implementation of joint study programmes in cooperation with foreign higher education institutions may be regarded as the response to the challenges of globalization and internationalization in the sphere of higher education. (Description of the Hospitality..., 2011). Rezekne Higher Education Institution is implementing the study programme "Hospitality Management" which is developed in cooperation with Utena College within the framework of the project "Utena College Feasibility Study regarding Business and Management, as well as the Areas of Tourism and Recreation in the International Joint Study Programme of Development and Implementation", project code No. VP1-2.2-ŠMM-07-K-02-022. The authors of this research paper are also both the authors and developers of the module "Organization of Hospitality Services" of this study programme.

The main aim of the joint study programme "**Hospitality Management**" is to train a professional who is able to work in dynamic and multicultural, as well as in local and international markets, who understands communication, organization and management of services in hospitality industry and is able to work/act in a responsive, creative and innovative manner, ensuring the quality of the services provided. (Description of the Hospitality..., 2011).

During the implementation of the module for 1st year students in the second semester of the academic year 2014/2015, the authors carried out the research, realized the approbation and summarized the theoretical results.

Topicality of the research: Sustainable development, which is based on knowledge, is necessary for Latvia. People who want to apply their knowledge in order to increase their personal prosperity and work productivity, as well as people who have set specific goals in their lives and are able to fulfil them are very important for our country (LR reģionālās attīstības un pašvaldību lietu ministrija, Latvijas Nacionālais attīstības plāns 2007–2013). A wide range of competencies (a body of knowledge, skills and attitude), for instance, language knowledge, competencies and practical skills in the field of information and communications technologies, communication and cooperation skills, working skills, entrepreneurial skills, civic consciousness, creativity, as well as ability to think critically, plan finances, evaluate the risks and find solutions to them, is necessary in order the person would have an opportunity to get a respectable job, fend for oneself and relatives and

contribute to development of the country (Pārresoru koordinācijas centrs., Latvijas Nacionālais attīstības plāns 2014-2020).

Nowadays, an employee in the hospitality industry must have both theoretical knowledge and practical skills that enable him/her to get a job in the hospitality companies shortly after graduation from the higher education institution. With the development of economies, which is based on knowledge, competition is steadily increasing not only in the market of goods and services but also in the labour market. (Izglītības un zinātnes ministrijas Profesionālās izglītības administrācija, 2007)

The aim of the research is to examine and analyse the development of professional competencies of hospitality industry specialists within the framework of completion of the interactive educational module “Organization of Hospitality Services”.

The research methods: the logical and constructive methods, the scientific induction method, synthesis, document analysis, the monographic method and the graphic method.

Hypothesis: learning efficiency during studies will be of higher quality if the interactive education modules providing students with possibilities of joint interaction and independent decision making will be included in the course along with the traditional teaching methods.

Within the project, study materials for e-learning in the courses “Accommodation Services” and “Catering Services” were developed aiming at the obtaining of theoretical knowledge by the students. During the research, the authors have carried a pilot survey to measure students’ theoretical knowledge, using the section “Check your progress” included at the end of each study topic of the course.

Requirements, aim, structure and position of the module “Organization of Hospitality Services” in the education process

Employers are becoming more demanding towards the professional competence of their employees; every individual acquires the initial level of professional competence in appropriate institutions of professional education. Professional activities are influenced also by employee’s ability to take responsibility (Lūka, 2007).

Such factors as the conformity of employees’ education with the labour market needs, training of the specialists who meet the employers’ needs, employees’ ability to think analytically, civic feeling of responsibility in relation to the processes in a multicultural society, as well as active participation in decision making and seeking for solutions are becoming more important (Aleksandrou et al., 2005; Rozenblats, 1998; Hargreaves, 2004).

Under the circumstances of modernization of higher professional education, increasing attention is paid to innovative methods in organization of the study process, which would help to form the students' professional competencies as efficiently as possible. Training of highly-qualified specialists in the hospitality industry may be realized based on implementation of interactive educational modules. The concept of interactivity is based on the ability of mutual cooperation. Mutual cooperation in the study process is examined by Lanka A. (Lanka, 2005), Zogla I. (Žogla, 2001), Rubene Z. (Rubene, 2004), Radigina J. (Радыгина, 2014), and it may be considered in several aspects:

- mutual cooperation with the cognitive field – the knowledge base, the content of the study course to be taken;
- mutual cooperation with a lecturer – a moderator of the study process, who not only forms the informative field but also organizes the environment of acquiring professional skills;
- mutual cooperation with other participants of the study process – the students.

During the study course, the process of interactivity includes not only search for information, exchange of it between the students and acquisition of knowledge but also formation of mutual relations between participants of the process, as well as specific development of the personality (Wichard et al., 2015). On the basis of theoretical knowledge and practical skills, interactivity facilitates the formation of understanding and awareness of importance of professional activities in the process of professional training, which is an essential part of personality's professional and social competence.

Interactive educational modules are study projects, business simulation games and role-plays, stimulators and social exercises during which the students are engaged in common activities and make independent decisions (Anestis et al., 2015).

The content of interactive educational modules shall meet the following requirements:

- the module shall be reproducible, i.e. it is possible to implement it repeatedly at a particular stage of educational process regardless of the personal qualities of the audience or lecturer;
- implementation of the module shall achieve the educational results determined by a lecturer, i.e. achievement of particular professional competencies;
- taking the module shall be based on the mutual cooperation between the students. It must be mentioned that the acquisition of professional competencies is possible only by imitation of the circumstances of professional activities (Кацева, 2009);

- professional competencies to be acquired by the students in the study process shall be required by the employers, thus guaranteeing success of future professional activities. (Радыгина, 2012)

In order to gather information about the professional competencies of tourism specialists, the professional standards in tourism industry, which are listed in the Classification of Occupations of the Republic of Latvia (Latvijas Republika Labklājības ministrija, Profesiju klasifikators, 2010) and in the Professional Standards (Valsts izglītības satura centrs, Profesiju standarti, 2008), are analysed.

On the basis of the mentioned requirements, an interactive educational module “Organization of Hospitality Services” is developed. The module is included in the study programme “Hospitality Management”. The module is implemented during the 1st year of studies and is integrated in the study process successfully. Taking the module is based on the study courses “Organization of Accommodation Services” and “Organization of Catering Services”, which establish the basis for taking other courses.

The methods of guest service form a part of the hospitality cycle (i.e. study courses from the basic (professional) part in the curriculum); therefore, implementation of the module is realized in the context of stages of hospitality cycle and involves learning guest service organization before studying hospitality management processes, as well as learning the following procedures: guest service (i.e. meeting, reception, taking of seats, service, accommodation, departure, resolving of conflict situations) (Figure 1). The aim of taking the module is to form the knowledge system on different methods of guest service, as well as technologies and skills to serve guests in the contact zone.

During the students’ activities, a real situation of guest service is imitated (in a training laboratory) – guest’s arrival at a hotel or restaurant. The learning process of the module consists of interconnected stages, for instance, the content of the study courses “Organization of Accommodation Services” and “Organization of Catering Services”: theoretical insight into guest service, an analysis of the blanks and forms of accurate record-keeping, the preparation stage, the stimulation of guest service process with the help of different role-plays, feedback.

Taking the module involves specific theoretical knowledge, comprehension of the content of hospitality cycles and learning the methods of guest service. During the training process, usage of video recording is advisable, so that the participants of the process could evaluate their conduct and activities.

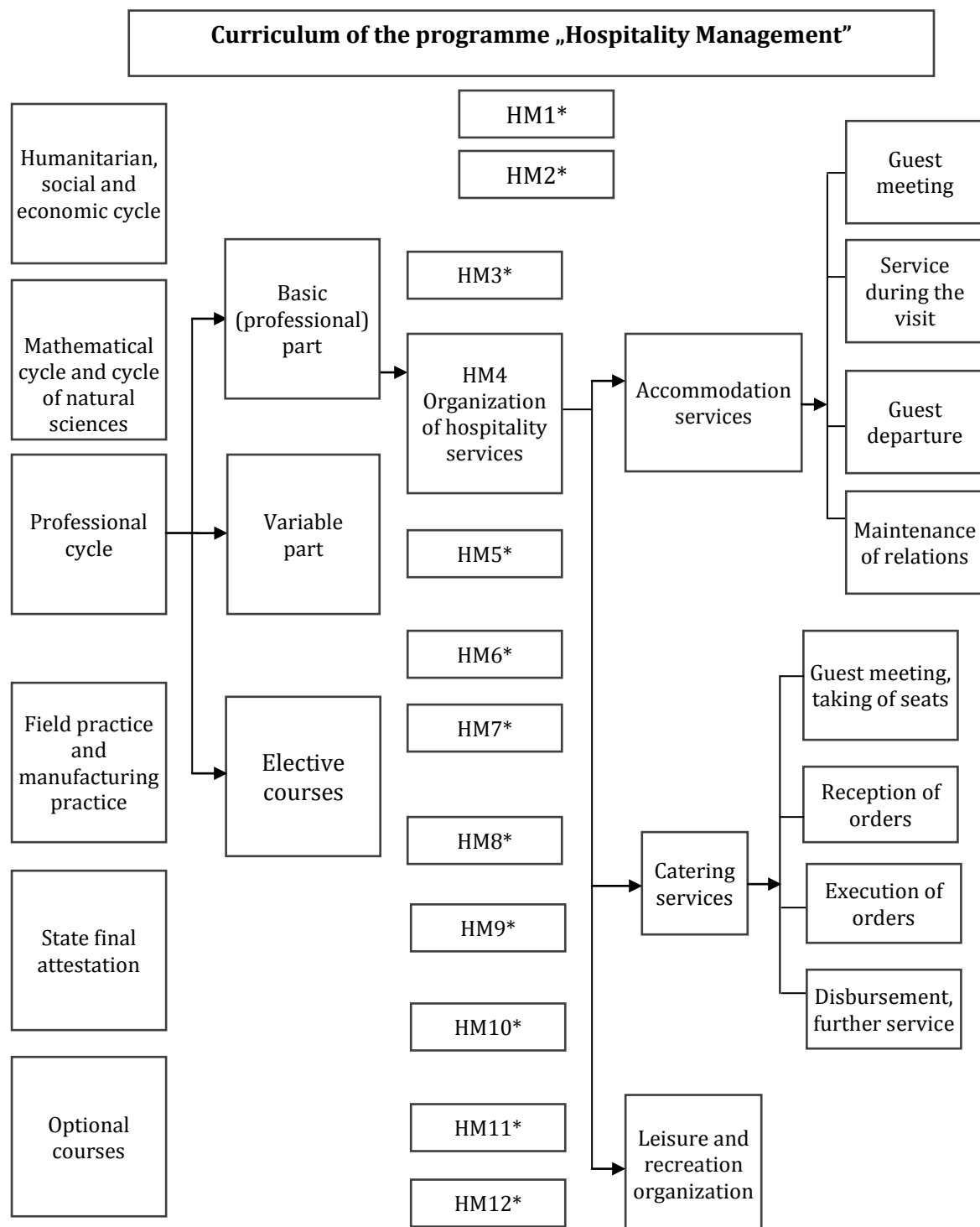


Fig.1 Position of the module in the education process
*(Source: formed by the authors based on Inovatīvas pieejas
 vispārpedagoģisko..., 2013)*

*HM1– Basics of Hospitality Industry; HM2– Communication I; HM3– Communication II; HM5– Business Environment Research; HM6– Marketing; HM7– Hospitality Business Finance and Law; HM8– Hospitality Services Management; HM9– Sustainable Development and Hospitality; HM10– Intercultural Communication and Cooperation; HM11– Organizational Behaviour or Personnel Development; HM12– Hospitality Project Development and Management).

The following levels of learning the content of the module exist: reproductive (procedures of guest service, imitation according to the example), standardized (independent quality control of the execution of the process), productive (usage of creative elements during the process of guest service) (Anestis et al., 2015).

The module may be taken by 6 – 12 students at the same time. During the learning process of the module, the students arrange into pairs in order to play a guest or service staff role. The participants who are not involved in a role-play are observers-experts and point to imperfections. Such organization of the process ensures cooperation and involvement of all students.

Figure 2 represents the content of the theme “Guest Service” which is learned during the study courses “Organization of Accommodation Services” and “Organization of Catering Services” within the framework of the module “Organization of Hospitality Services”.

The following stages of implementation of the module are offered:

- 1) determination of the aim and tasks, planning of the results of taking the module (at this stage, the students evaluate the expected results after taking the module, the link with the previously learnt material is realized);
- 2) acquisition of theoretical knowledge (theoretical studies, individual or group activities, composition of a summary, learning the execution of documents);
- 3) development of practical skills (work in pairs, imitation of the stages of guest service process);
- 4) feedback (exchange of the ideas; evaluation of performance of practical exercises; consolidation of the learnt material; analysis and correction of the mistakes which were made during the service process; description of the most difficult situations during the guest service);
- 5) seeking for solutions to the exercise of the situation (analysis and seeking for solutions to the exercises of the situation, analysis of imaginary or self-experienced situation);
- 6) monitoring of the results (exchange of ideas, evaluation of the results after taking the module, execution of the report, final testing) (Радыгина, 2012 (b))

The content of each stage is discussed in Table 1.

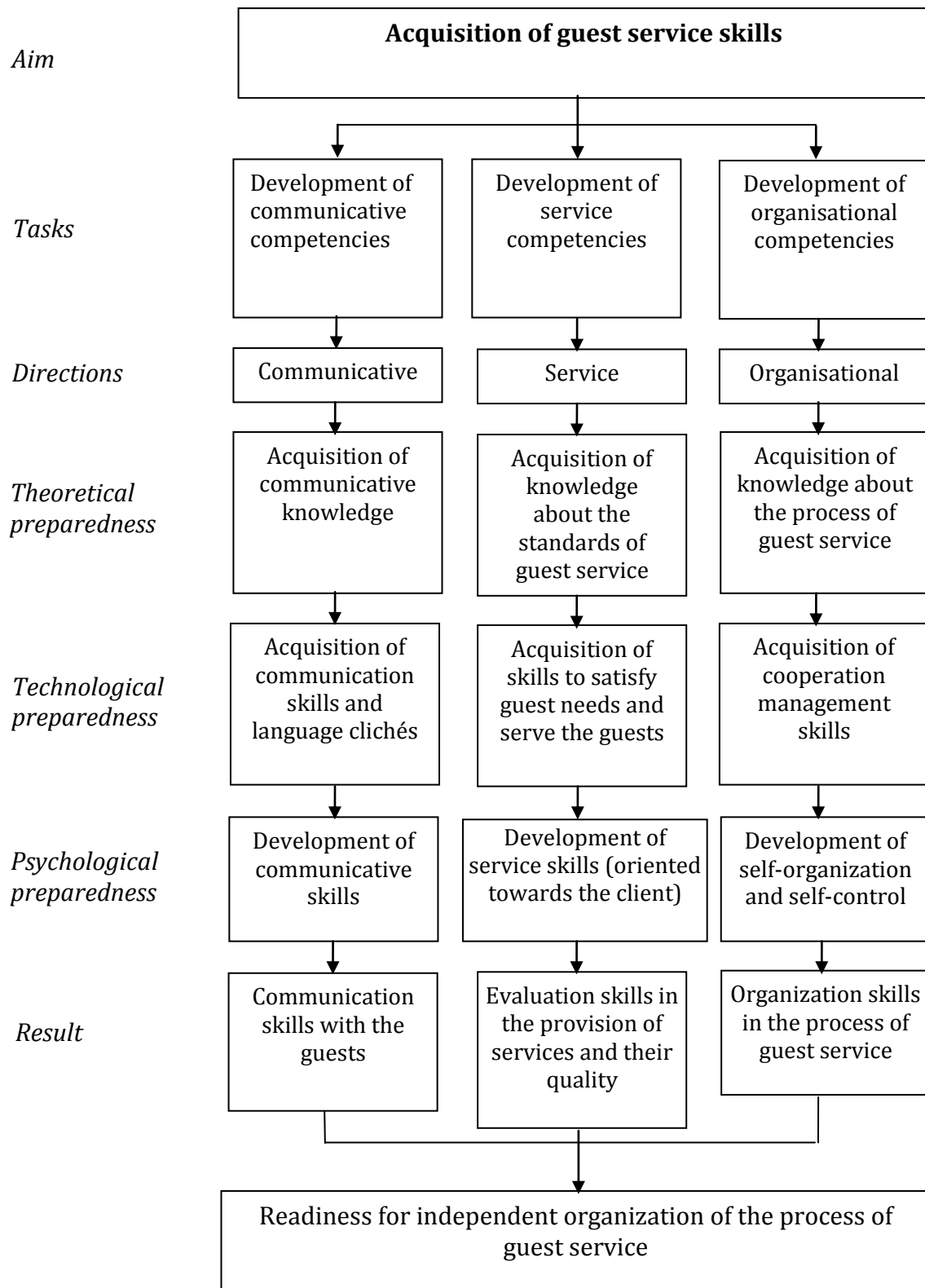


Fig.2 The content of the theme “Guest Service” learned during the study courses “Organization of Accommodation Services” and “Organization of Catering Services” within the framework of the module “Organization of Hospitality Services”

(Source: formed by the authors based on *Inovātīvas pieejas vispārpedagoģisko...*, 2013; *Радыгина, 2012a*)

Table 1 The content of implementation stages of the theme “Guest Service” which is learnt during the study courses “Organization of Accommodation Services” and “Organization of Catering Services”
 (Source: formed by the authors based on *Inovātīvas pieejas vispārpedagoģisko...*, 2013; *Радыгина*, 2012a)

| <i>Stage</i> | <i>Directions</i> | <i>Form of implementation</i> | <i>Lecturer's activities</i> | <i>Result</i> |
|--|----------------------------|--|--|---|
| Determination of the aim and tasks, planning of the results of taking the module | - | Evaluation of students' expectations after taking the module, realization of the link with the previously learnt material | Organization of the process, information of the students about the stages of taking the module and the requirements of the final result | Stimulation of student motivation |
| Acquisition of theoretical knowledge | Theoretical preparedness | Lectures, individual or group activities, composition of a summary, examination of document types | Transmission of knowledge, organization of training, consultation | Acquisition and accumulation of theoretical knowledge |
| Project activities | Technological preparedness | Customer service individually or in groups, organization of the process | Consultation, control of organization of the process | Common view about the organization of the service process, classification of the main stages |
| Development of practical skills | Technological preparedness | Work in pairs, imitation of the stages of guest service process | Control of the process and filling in the documents | Acquisition of practical skills of guest service |
| Feedback | Psychological preparedness | Exchange of the ideas, evaluation of performance of practical exercises, consolidation of the learnt material, the correction of the mistakes, description of the most difficult situations during the guest service | Control of the compliance with the principles of the process, time frame and feedback; evaluation of students' satisfaction with the process | Student self-assessment in relation to the quality of performance of the exercises, preparedness to organize the registration process independently |

| | | | | |
|---|--|---|---|---|
| Seeking for solutions to the exercises of the situation | Technological and psychological preparedness | Analysis and seeking for solutions to the exercises of the situation, the analysis of a manufacturing or self-experienced situation | Selection of the situation and manufacturing exercises, organization of the process of seeking for solutions to the exercises | Acquisition of mutual cooperation skills in non-standard situations |
| Monitoring of the results | - | Exchange of the ideas, evaluation of the results after taking the module, execution of the report, final testing | Evaluation of the effectiveness of taking the module, development of the materials for control testing | Final attestation of the students |

Taking the module requires four practical classes in each of the study courses, but it may be used also as an exercise throughout a study year. Interactivity may be observed over the course of the entire module – activity, involving the students in individual and mutual cooperation, guarantees successful acquisition of theoretical knowledge and acquisition of professional cooperation skills.

The activities of the organizer (lecturer) are as follows:

- determination of the aim and tasks, selection of the materials, elaboration of evaluation criteria for the exercises, including assessment of situations and tests;
- organization of the process of mutual cooperation, informing the students about the stages of taking the module and the requirements for the final result, control of the time frame in taking the module;
- transmission of knowledge, consultation, assistance for the students during performance of the exercises;
- monitoring of the process of taking the module, correction of the content of the module according to the peculiarities of the group and the development level of the professional competencies, organization of feedback, evaluation of students' satisfaction with the process;
- evaluation of the effectiveness of taking the module. The authors have carried out pilot research to find out if the efficiency of studies using e-learning materials is sufficient or it is necessary, along with the classical studies, to introduce interactive education modules providing students with

possibilities of joint interaction and independent decision making.

The pilot research results of approbation of the module “Organization of Hospitality Services”

As the authors of the paper have already mentioned, the module is implemented during the 1st year studies; it is integrated in the study process successfully and consists of three study courses “Accommodation Services”, “Catering Services” and “Leisure and Recreation Organization”, which establish the basis for taking other courses.

Within the framework of the project, educational materials were developed by topics in each study course according to the programme elaborated; they are available in e-environment. The following components are included in the educational material:

- Aims and objectives;
- Theoretical material;
- Check your progress;
- Summary;
- Lesson activities;
- Questions for discussion;
- Check your progress – answers;
- References.

The material for the study courses “Accommodation Services”, “Catering Services” and “Leisure and Recreation Organization”, which is available in e-environment, is intended for acquisition of theoretical knowledge. Within the framework of this research, the authors have carried out the evaluation of theoretical knowledge, using the component *Check your progress*, which is included in each topic of the study course.

Example. The evaluation of theoretical knowledge on the topic “Preparation for Service”, which is included in the study course “Catering Services”, was carried out. Twelve students were tested at the beginning and at the end of the lecture. They were asked 20 questions.

Table 2 The pilot research results of learning theoretical material on the topic “Preparation for Service”, %
(source: formed by the authors)

| Right answers | Number of the students before explanation of the topic, % | Number of students after explanation of the topic, % |
|------------------|---|--|
| Answered 80-100% | 8.3 | 16.7 |
| Answered 60-79% | 16.7 | 41.6 |
| Answered 40-59% | 25 | 16.7 |
| Answered 20-39% | 33.3 | 16.7 |
| Answered 1-19% | 16.7 | 8.3 |

The research results have demonstrated the following: at the beginning of the class, when no information was provided on the topic, the correct answers (80%-100%) were provided only by 8.3% students (including randomness principle), which was a very small number. When the test was repeatedly carried out at the end of the class, after the study material was explained, the number of students providing correct answers (80%-100%) increased up to 16.7%. 41,6% of students gave answers with insignificant mistakes. It may be concluded that learning the theoretical material is not sufficient enough in order to acquire professional competencies at the highest level. The authors of the paper suggest acquisition of practical skills, which is extremely important.

Conclusions and suggestions

The organization of the process of guest service during the performance of the exercise, the analysis and elaboration of solutions to the organizational problems of the process and testing may serve as an attestation of completing the module. Compiling the results of learning the theme "Guest Service", which is included in the study courses "Organization of Accommodation Services" and "Organization of Catering Services", the following factors are taken into consideration:

- quality of learning the theoretical material, the volume of knowledge acquired, the accuracy of performance of the exercises;
- accuracy of application of the methods for guest service process;
- the results of performance of the practical exercises, quality of professional cooperation skills acquired in the imitated contact zone;
- the results of analysis of the solutions to situations, including imaginary situations, and exercises; simplicity and efficiency of the solutions, which are offered in relation to the problems analysed;
- quality of feedback, existence of reflection, self-assessment and awareness of self-development process, determination of the aims for further self-development.

The results of learning the theme "Guest Service", which is included in the study courses "Organization of Accommodation Services" and "Organization of Catering Services", are taken into consideration by evaluating the student's knowledge in the module "Organization of Hospitality Services".

The opportunities for application of the interactive educational module "Organization of Hospitality Services" are wide enough: it may be

applied not only in the training process of hospitality industry specialists, but also in order to raise the qualification level of managers at the intermediate level and organize competitions of professional skills. The module may be supplemented and complicated, using additional elements, for instance, imitation of the registration process of a group, a guest who tends to conflict, a VIP guest, a guest-disabled person etc. In such a situation, taking the module may be oriented towards the solution of specific imaginary situations, as well as formation on staff actions in non-standard situations.

The research results have demonstrated the following: at the beginning of the class, when no information was provided on the topic, the correct answers (80%-100%) were provided only by 8.3% students (including randomness principle), which was a very small number. When the test was repeatedly carried out at the end of the class, after the study material was explained, the number of students providing correct answers (80%-100%) increased up to 16.7%. 41.6% of students provided answers with insignificant mistakes.

It may be concluded that learning the theoretical material is not sufficient enough in order to acquire professional competencies at the highest level. The authors of the paper offer the acquisition of practical skills, which is extremely important, proving that the hypothesis is confirmed.

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VIESMĪLĪBAS NOZARES SPECIĀLISTU PROFESIONĀLO KOMPETENČU PILNVEIDE IZGLĪTOJOŠĀ MODUĻĀ „VIESMĪLĪBAS PAKALPOJUMU ORGANIZĀCIJA” IETVAROS

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Kopsavilkums

Latvijai nepieciešama uz zināšanām balstīta, ilgtspējīga attīstība. Tai vajadzīgi cilvēki, kas vēlas savas zināšanas izmantot personiskās labklājības celšanai, sava darba ražīguma paaugstināšanai, cilvēki, kas izvirzījuši sev dzīvē pavisam konkrētus mērķus un ir spējīgi tos īstenot.

Rēzeknes Augstskolā tiek īstenota programma “Viesmīlības vadība”, kura izstrādāta kopā ar Utenas Kolēģiju projekta “Utena College feasibility study regarding Business and Management, as well as Tourism and Recreation areas of study of international joint study program development and implementation” ietvaros, projekta kods Nr. VP1-2.2- ŠMM -07-K-02-022.

Pētījums veikts, tā aprobācija un rezultātu apkopošana notika 2014./2015.mācību gada moduļa īstenošanas laikā 1.kursa studentiem 2.semestrī.

Pētījuma mērķis ir izpētīt un analizēt viesmīlības nozares speciālistu profesionālo kompetenču attīstīšanu interaktīva izglītojoša moduļa „Viesmīlības pakalpojumu servisa organizācija” apguves ietvaros”. Pētījuma uzdevumi ir izpētīt interaktīvo izglītojošo moduļu veidošanas, pielietošanas un nozīmes teorētiskos aspektus, noteikt interaktīvi izglītojošā moduļa prasības, mērķi, struktūru un vietu izglītības procesā. Rakstā tiek pētīti interaktīvi izglītojoši moduļu veidošanas teorētiskie aspekti, tiek piedāvāts interaktīvi izglītojošā moduļa „Viesmīlības pakalpojumu servisa organizācija” saturs, kas tiek īstenots programmas „Viesmīlības vadība” ietvaros, tiek noteiktas interaktīvi izglītojošā moduļa prasības, mērķis, struktūra un vieta izglītības procesā. Interaktīvā izglītojošā moduļa „Viesmīlības pakalpojumu servisa organizācija” izmantošanas iespējas ir pietiekami plašas: to var pielietot ne vien viesmīlības nozares speciālistu sagatavošanas procesā, bet arī vidējā posma menedžeru kvalifikācijas paaugstināšanā un profesionālās meistarības konkursu rīkošanā. Moduli var papildināt un sarežģīt ar papildus elementiem, piemēram, modelējot viesu grupas, uz konfliktiem tendēta viesā, VIP viesā, viesā-invalīda utt. reģistrācijas procesu. Šajā gadījumā moduļa apguve var tikt orientēta uz konkrētu ražošanas situāciju risināšanu, kā arī personāla rīcības nestandarta situācijās algoritma veidošanu.

Pilotpētījuma rezultātā secināts, ka pilnīgai profesionālo kompetenču veidošanai nepietiek tikai ar teorētiskā materiāla apguvi, bet nepieciešama arī praktisko iemaņu attīstīšana, ko raksta autori piedāvā rakstā.

Izmantotās pētījumu metodes: loģiski konstruktīvā metode, zinātniskās indukcijas metode, sintēzes metode, dokumentu analīze, monogrāfiska metode, grafiskā metode.

Atslēgvārdi: *interaktivitāte, izglītojošais modulis, profesionālā kompetence, viesmīlības vadība, viesu apkalpošana.*

OPPORTUNITIES FOR THE REGIONAL UNIVERSITY IN DECREASING EMIGRATION

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Abstract. *The trend in the decreasing number of inhabitants is a very significant regional problem in Latvia. During recent years many people of Latvia have emigrated as economic refugees to Ireland, the United Kingdom, Germany and other countries. More than 30% of them are well-educated young people who gained higher education in Latvia. Most of them are employed as unskilled labourers there. The potential causes of emigration of well-educated young people are analysed in this research study. The aim of the research study is to reveal potential emigration problems of the young generation and to research some opportunities for the regional university in decreasing youth emigration. Potential emigration problems are identified by using findings of a survey of students, organized at Rezekne University of Applied Sciences. The suggestions about opportunities for the regional university in decreasing youth emigration were developed by taking into account the results of the survey and cooperation possibilities between the regional university and municipalities and by changing the approach to the study process.*

Keywords: *emigration, regional development, regional university*

JEL code: *R11, R23*

Introduction

The trend in decreasing number of inhabitants in Latvia's regions and overall in Latvia is critical in the context of economic development in Latvia and in the context of existence of the Latvian nation in general. This fact raises concerns related to the simultaneous reduction of intellectual potential in Latvia because approximately one third of emigrants from Latvia are well-educated young people who gained higher education in Latvia. Many researchers have studied emigration problems in Latvia. They are as follows: Kaktiņš, Eglīte, Hazans, Krišjāne, Bauls, Indāns, Lulle, Philips, Bērziņš, Mežs, Dzenovska, etc.

Findings of the researchers about the emigration problems in Latvia before the economic crisis allowed defining the groups of inhabitants which, with higher probability, would be able to leave the country as economic refugees. These groups were young people at the age of 15 – 24. Findings of the research about emigration problems in Latvia after the economic crisis showed that 80% of the emigrants who had emigrated during the economic crisis were younger than 35 years and most of them were highly educated. Results of the survey of students,

conducted in 2011, indicated that 65% of the students planned to live and work abroad after their graduation (Hazans, 2011).

The aim of this research study is to reveal some potential emigration problems of the young generation, to research some opportunities for the regional university in decreasing youth emigration.

To achieve this aim, several objectives are defined:

- to interpret researchers' findings about emigration problems in Latvia;
- to carry out a survey of students about their attitude to emigration after their graduation;
- to analyse the role of regional universities in decreasing emigration processes;
- to develop proposals about opportunities for the regional university in decreasing emigration and reducing the leakage of intellectual potential from Latvia.

A hypothesis of this research is as follows: It is possible to reduce the leakage of intellectual potential from Latvia's regions by changing the strategic approach to opportunities for the regional universities, emphasizing the promotion of students' talents and abilities in a changing environment and promoting cooperation between the university and the municipality.

Research object: students.

Research subject: factors influencing the emigration of the young generation.

To achieve the objectives of this research, the following research methods were used: content analysis, analysis and synthesis, logical and abstract constructive methods, reference methods, analytic-synthetic classification, a questionnaire survey, a survey into students' opinions, the SPSS programme.

Research results and discussions

Some aspects about researchers' findings related to emigration from Latvia

Robert Barro (Barro, 1997) underlined that Human capital is a relevant source of economic growth. International migration is a pending matter not only in the EU but all over the world. Many researchers have studied emigration problems in Latvia: Eglīte et al. (2002), Hazans (2003, 2011), Krišjāne, Bauls (2005, 2011), Indāns et al. (2006), Lulle (2007), Krišjāne et al. (2007), Krišjāne, Eglīte (2009), Hazans, Philips (2010), Bērziņš (2011), Mežs (2011), Dzenovska (2012) etc.

Before the economic crisis, a sociological research study was performed by SKDS (Kaktiņš, 2006). The main question of this research was: How do Latvian people perceive migration problems? The attitude of Latvian people to the fact of emigration was analyzed. The question: "How likely is it that you in the next 2 years could go to work in another country?" with a probability of 95%, was answered that 7.7 – 11.5% of Latvian residents, which comprised 138 000 to 207 000 people, in the next 2 years could go abroad. If considering how many are those who say "very important" or "rather large", then this amount could probably reach 350 000 to 450 000 people. The population groups more likely to leave the country to work elsewhere are people in the age group of 15-24 (45% of the respondents). They say that the probability is "very high", or "rather high". The study also showed that 2/3 of the whole population defined people emigration to work abroad as a national problem, which means this problem should be tackled at the state level.

Mežs (2006) predicted in his study the problems and perspectives in immigration policy: that by 2015 an economically active population of 200 000 would have emigrated from Latvia.

The findings of a study carried out by the Hazans (2011) show that 80% of the all migrants are under the age of 35 in 2009 – 2011. 27% out of all the migrants are highly educated and aged over 22 in 2010. The results of the survey (Hazans, 2011) showed that 65% of the surveyed students intend to live and work abroad after their graduation.

Britain is one of the main destinations of labour from Latvia. Apsīte-Beriņa (2013) analysed the population groups which were involved in the migration to Britain from Latvia. It was noted that in the period from 2004 to 2012, around 120 thousand Latvian nationals were officially registered in Britain. The majority of migrants were up to the age of 30, who, according to the results of the analysis performed, burdened by debts are unlikely to return. The majority of Latvia's population in Britain, like other Eastern European migrants, can be characterized as business or economic migrants. Most of the workers are employed in Britain as unskilled labourers in spite of their high qualification and education.

"Those who talk about economic growth seem to be living in a different world than those who day after day are trying to survive. There is a mismatch between the visions of future and life experience, resulting in the loss of hope, therefore people are looking for a specific future elsewhere. Departure, no matter how difficult and heavy, however, offers some hope," said study author Dzenovska (2012). The author also stressed that emigration and diaspora life – behind the borders or in the territory of Latvia – is not merely negative and that contact with new

challenges is evaluated in the current action and creates a new relationship, which may include new ethical and political resources to help restore the links between the Latvian public and their political space.

Empirical study on the students' attitude to emigration

The aim of this empirical study is to identify the students' view on their opportunities to remain in the native region after their graduation and to clarify the factors which influence their choice of workplace after their graduation.

Methodology of the study

The method of a survey was used. The target group was students. The sampled respondents: 100 students. It meets the pilot project. The respondents were the bachelor and master study programmes' students who studied at the Economic and Management Department of Rezekne University of Applied Sciences. By the end of their studies, students obtained knowledge and skills to start a small business or to manage different departments.

The following research methods were used: analysis and synthesis, logical and abstract constructive methods, reference methods, a questionnaire survey, a survey into students' opinion, data processing capabilities of the SPSS program, correlations were defined by Pearson's coefficients.

The year of study period: 2014.

The hypothesis of the empirical study: regional universities have the potential to reduce the emigration of graduates by changing their accents during the study process.

Results

The questionnaire covered questions concerning the attitude of the respondents to their future prospects in the native region, their desire to go abroad or stay in the native county / region, their desired wages in Latvia after graduation and other factors.

Table 1 includes responses to the question: 'If you decide to remain in the native county after your graduation, what wage do you desire?'

Data processing (Table 1) and their interpretation reflect that 73% of the respondents concede their future prospects in their native municipality and associate their future with the native municipality after – graduation. The respondents who associate their future with their native municipality modestly appraise the desired wage: 56% of the respondents desire wages less than EUR 590, 27% – desirerwages from

EUR 600 to 790, 17% of the respondents desire wage of more than EUR 800.27% out of the respondents concede their future in Latvia outside their native municipality. These respondents appraise their desired wage very much alike to the respondents who associate their future with their native municipality: 52% of the respondents desire wages of less than 590 EUR, 22% desire wages from EUR 600 to 790, and 26% of the respondents desire wages of more than EUR 800.

Table 1 Responses of the respondents to the question about their future prospects in their native municipality and their desired wage
(Source: compiled by the author)

| | | See prospects in the native municipality | | Total |
|-----------------------------------|--------------------------|--|----|-------|
| | | Yes | no | yes |
| Remain in the native municipality | wage EUR 320-590 | 41 | 14 | 55 |
| | wage EUR 600- 790 | 21 | 6 | 27 |
| | wage EUR 800-1000 | 7 | 2 | 9 |
| | wage EUR 1100-1500 | 4 | 4 | 8 |
| | regardless of the salary | 0 | 1 | 1 |
| Total | | 73 | 27 | 100 |

Only 1% of the respondents did not associate the future with the native municipality and with the entire Latvia after graduation apart from the desired wage.

Table 2 Respondents' responses to the question about their fear of risk to start a business depending on their future prospects in the native municipality
(Source: compiled by the author)

| | | Fear of risk | | Total |
|--|-----|--------------|----|-------|
| | | yes | no | yes |
| See prospects in the native municipality | yes | 26 | 47 | 73 |
| | no | 11 | 16 | 27 |
| Total | | 37 | 63 | 100 |

Already by definition, business is related to risk. Data of Table 2 show that 35.6% of those respondents who see their prospects in their native municipalities and 40.7% of those respondents who do not see their prospects in their native municipalities have a fear of risk in starting

a business. Overall, 37% respondents have the fear to start their own business. The fact that 37% of the students who chose a profession associated with business management have a fear of risk requires further research. This study investigates the factors influencing the attitude to risk. Is the regional university able to influence this process?

Table 3 Respondents’ self-assessment of their leadership skills depending on their future prospects in the native municipality
(Source: compiled by the author)

| | | Leadership skills are missing | | Total |
|--|-----|-------------------------------|----|-------|
| | | yes | no | yes |
| See prospects in the native municipality | yes | 24 | 49 | 73 |
| | no | 9 | 18 | 27 |
| Total | | 33 | 67 | 100 |

32.8% of the respondents who concede their prospects in the native municipality and 33.3 % of the respondents who do not see their prospects in the native municipality confirmed that they miss leadership skills. In total, 33% of the respondents confirmed that they miss leadership skills.

Table 4 Respondents self-assessment of their communication skills depending on their future prospects in their native municipality
(Source: compiled by the author)

| | | Poor communication skills | | Total |
|--|-----|---------------------------|----|-------|
| | | yes | no | yes |
| See prospects in the native municipality | yes | 5 | 68 | 73 |
| | no | 8 | 19 | 27 |
| Total | | 13 | 87 | 100 |

6.8% of the respondents who see their prospects in their native municipality and 29.6 % of the respondents who do not see their prospects in the native municipality confirmed their lack of communication skills for starting a business. In total, 13% of the respondents confirmed their lack of communication skills, but 87% of the respondents confirmed that they have sufficient communication skills for starting a business after graduation.

Table 5 Respondents' self-assessment of their fear of the lack of skills and knowledge to start a business after graduation depending on their future prospects in their native municipality

(Source: compiled by the author)

| | | Fear of the lack of skills and knowledge for starting a business | | Total |
|--|-----|--|----|-------|
| | | yes | no | yes |
| See prospects in the native municipality | yes | 26 | 47 | 73 |
| | no | 13 | 14 | 27 |
| Total | | 39 | 61 | 100 |

35.6% the respondents who see their prospects in their native municipality and 48.1 % of the respondents who do not see any prospects in their native municipality considered that they lack skills and knowledge to start a business after graduation. In total, 61% of the all respondents considered that they have sufficient skills and knowledge to start a business, but 39% of all the respondents considered that they lack skills and knowledge for starting a business after graduation (see Table 5).

Table 6 Respondents' self-assessment of feeling confident for starting a business successfully after graduation depending on their future prospects in the native municipality

(Source: compiled by the author)

| | | Confidence in starting a business successfully | | Total |
|--|-----|--|----|-------|
| | | yes | no | yes |
| See prospects in the native municipality | yes | 37 | 36 | 73 |
| | no | 12 | 15 | 27 |
| Total | | 49 | 51 | 100 |

Data processing (Table 6) and their interpretation reflect that 50.6% of the respondents who see prospects in their native municipality and 44.4 % of the respondents who do not see any prospects in the native municipality confirmed that they feel assured of starting a business successfully after their graduation. In total, 49% of the all respondents were convinced in starting a business successfully after their graduation.

Comparison of data in Table 5 and Table 6 allows concluding that the number of the respondents who were sure about starting a business

successfully is smaller than that of the respondents who considered that the regional university gave sufficient skills and knowledge to start a business. This distinction is greater for the respondents who associate their future with their native municipality.

Table 7 Correlation among the factors influencing the students' choice to start a business

(Source: compiled by the author)

| Factors | | Fear of risk | Leadership skills are missing | Poor communication skills | Poor skills and knowledge for starting a business | Confidence in successfully starting a business |
|---|---------------------|--------------|-------------------------------|---------------------------|---|--|
| Fear of risk | Pearson Correlation | 1 | .255(**) | .196(*) | -.103 | -.088 |
| | Sig. (1-tailed) | | .005 | .025 | .153 | .191 |
| | N | 100 | 100 | 100 | 100 | 100 |
| Leadership skills are missing | Pearson Correlation | .255(**) | 1 | .235(**) | -.300(**) | -.007 |
| | Sig. (1-tailed) | .005 | | .009 | .001 | .472 |
| | N | 100 | 100 | 100 | 100 | 100 |
| Poor communication skills | Pearson Correlation | .196(*) | .235(**) | 1 | -.126 | -.022 |
| | Sig. (1-tailed) | .025 | .009 | | .105 | .414 |
| | N | 100 | 100 | 100 | 100 | 100 |
| Poor skills and knowledge for starting a business | Pearson Correlation | -.103 | -.300(**) | -.126 | 1 | -.087 |
| | Sig. (1-tailed) | .153 | .001 | .105 | | .196 |
| | N | 100 | 100 | 100 | 100 | 100 |
| Confidence in successfully starting a business | Pearson Correlation | -.088 | -.007 | -.022 | -.087 | 1 |
| | Sig. (1-tailed) | .191 | .472 | .414 | .196 | |
| | N | 100 | 100 | 100 | 100 | 100 |

** Correlation is significant at the 0.01 level (1-tailed).

* Correlation is significant at the 0.05 level (1-tailed).

Data processing (Table 7) and their interpretation show that a significant correlation exists among the lack of leadership skills, the fear

of risk, the lack of communication skills and the lack of skills and knowledge for starting a business after graduation.

The factors which influence the students' decision-making about opportunities to start a business are summarised in Table 8.

Table 8 Factors which influence starting a business
(Source: compiled by the author)

| Factors | Respondents who associate their future with their native municipality (73) | | Respondents who do not associate their future with their native municipality (27) | | Total number |
|---|--|------|---|------|--------------|
| | Number | % | Number | % | % |
| Poor communication skills | 5 | 6.8 | 8 | 29.6 | 13 |
| Leadership skills are missing | 24 | 32.8 | 9 | 33.3 | 33 |
| Fear of risk | 26 | 35.6 | 11 | 42.3 | 37 |
| Poor skills and knowledge for starting a business | 26 | 35.6 | 13 | 48.1 | 39 |
| Confidence in successfully starting a business | 37 | 50.6 | 12 | 44.4 | 49 |
| Lack of experience | 61 | 83.5 | 20 | 74 | 81 |

These factors are aggregated in case the students associate their future with their native municipality and in case the students are going to look for a job out of their native municipality after their graduation. Every thirteenth student lacks communication skills. The regional university should pay serious attention to such issues as the development of leader skills in students who study business because every third respondent lacked leader skills. 37% of the respondents feel the fear of risk. It is high due to the fact that business is always associated with risk. Consequently, these issues should be given close attention in the learning process. Critical factors are the lack of experience and the lack of confidence about the ability to start a business. In students' point of view, the lack of conviction about their ability to start a business is about 10% lower than their lack of knowledge and skills for starting a business.

Conclusions

The results of the survey show that the majority of the students see their future prospects in their native municipality and they associate their future with their native municipality after their graduation. The job opportunities for the well-educated youth in their native regions are closely associated with the ability to develop business and the creation of new jobs in their native regions. The results of the survey of students showed the main obstacles associated with starting a business after graduation. They are as follows: lack of experience, lack of business abilities, lack of knowledge and skills after graduation, fear of risk, lack of leader abilities and lack of communication skills.

It is possible to reduce the leakage of intellectual potential from Latvia's regions by changing the strategic approach to opportunities for the regional universities, emphasizing the promotion of talents and abilities of students in a changing environment and promoting cooperation between the university and the municipality. In this context, structural changes in management and entrepreneurship study programmes should be made. Learning outcomes of these study programmes should be changed by emphasizing development of necessary skills and knowledge.

It is necessary to develop the contents of the study courses which will ensure required skills and knowledge.

The admission rules for the management and entrepreneurship study programmes should include a test which can evaluate leadership abilities of entrants.

It is necessary to strengthen cooperation between regional universities and municipalities with the aim to make students interested in their region's specialization and to involve the students who live in these municipalities in the research projects related to the interests of these municipalities.

This cooperation will allow young people to link their future with their native regions after graduation and actively participate in development processes of their native regions. It will not only reduce the emigration but will also increase the intellectual potential of the region and development of the native region as a whole.

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REĢIONĀLĀS AUGSTSKOLAS IESPĒJAS EMIGRĀCIJAS SAMAZINĀŠANĀ

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Kopsavilkums

Iedzīvotāju skaita samazināšanās tendence ir ļoti būtiska problēma ne tikai reģionos bet arī visā Latvijā. Pēdējos gados daudzi cilvēki no Latvijas emigrēja kā ekonomiskie bēgļi uz Īriju, Apvienoto Karalisti, Vāciju un citām valstīm. Vairāk nekā 30% no tiem bija labi izglītoti jaunieši, kuri bija ieguvuši augstāko izglītību Latvijā. Lielākā daļa no viņiem emigrācijā nodarbināti neatbilstoši kvalifikācijai. Šajā pētījumā tiek analizēta jauniešu attieksme pret iespēju pēc augstskolas beigšanas savu nākotni saistīt ar dzimto reģionu/valsti. Pētījuma mērķis bija atklāt iespējamās jauniešu emigrācijas problēmas, kā arī reģionālās augstskolas iespējas emigrācijas samazināšanā. Potenciālās emigrācijas problēmas tika noteiktas, analizējot studentu viedokļu aptaujas, kas tika organizēta Rēzeknes Augstskolā, rezultātus. Piedāvāti priekšlikumi par reģionālās augstskolas iespējām samazināt jauniešu emigrāciju. Tie tika izstrādāti, ņemot vērā aptauju rezultātus, kā arī sadarbības iespējas starp reģionālo augstskolu un pašvaldību. Tiek ieteikts uzņēmjdarbības un vadības studiju programmās ieviest izmaiņas nedefinētajos studiju rezultātos un atbilstošajos studiju

kursos, tādā veidā nodrošinot trūkstošās iemaņas un zināšanas, kas attiecas uz uzņēmējdarbības uzsākšanas un attīstības iespējām, kā arī uzņemšanas noteikumos šajās studiju programmās būtu jāparedz tests, kas nosaka līdera dotību esamību. Reģionālajai augstskolai tiek ieteikts attīstīt sadarbību ar novadiem/pilsētām, lai risinātu sekojošus jautājumus, kas attiecas uz novadā/pilsētā dzīvojošajiem studentiem, t.sk. arī topošajiem:

- intereses radišana par novada speciālizācijām vēl pirms iestāšanās augstskolā;
- pašvaldības ieinteresētība studiju procesā, sadarbojoties ar tās teritorijā dzīvojošajiem studentiem dažādu pētījumu un izstrāžu veikšanā pašvaldības interesēs;
- prakses vietu nodrošināšana un atbalsts studiju procesā pašvaldības teritorijā dzīvojošajiem studentiem.

Šī sadarbība ļautu jauniešiem pēc augstskolas beigšanas saistīt savu nākotni ar dzimto novadu un aktīvi iekļauties sava reģiona attīstībā. Tas, savukārt, ne tikai mazinātu emigrāciju, bet arī paaugstinātu reģiona intelektuālo potenciālu un attīstību kopumā, kā arī lielā mērā nodrošinātu jauniešu dzīves līmeņa kvalitāti.

Atslēgas vārdi: ***emigrācija, reģionālā attīstība, reģionālā augstskola.***

RESEARCH INTO SOME ECONOMIC ASPECTS RELATED TO EMIGRATION: THE CASE OF SLOVAKIA AND LATVIA

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Abstract. *The common problem in the EU countries is a high rate of youth unemployment. Many well- educated young people emigrate from their native countries with the aim to look for better job opportunities abroad. Slovakia and Latvia are the countries with a high rate of youth emigration. The major reason for emigration is the economic situation in both countries - high rate of unemployment and low wages. Usually emigrants from these countries are employed as unskilled workers abroad. Thereby the native countries of emigrants lose well-educated people but the destination countries of migrants do not exploit the skills and knowledge of these people. In this case this problem is a social problem at the EU level. The aim of this research study is to evaluate and to compare the economic situation in Slovakia and Latvia, as well as in the destination countries of migrants. Suggestions referred to the decrease in human capital flight or brain drain from Latvia and Slovakia are presented in this paper. The main sources exploited in the analysis embrace the European statistical database and the statistical databases of the Slovak Republic and the Republic of Latvia. This research focuses on the annual data of two countries covering a period of 2004-2014. The year 2004 for both countries is the year of their accession to the EU. The main research methods employed in this study are as follows: comparison analysis, statistical analysis, content analysis.*

Keywords: *economies of Latvia and Slovakia, unemployment, minimum wages, GDP*
JEL code: A10, E24

Introduction

There are substantial differences that exist in European labour markets, welfare systems, and recent migration flows. People move across countries for many reasons. Economic theory most prominently highlights the international labour mobility that descends from wage differences across countries. Many students from developing economies migrate to advanced countries, for either short or long durations, to study in the schools and universities of advanced countries (e.g. Borjas, 2009).

Sari Pekkala Kerr and William R. Kerr investigated the economic impacts of immigration in various host countries and the assimilation of immigrant workers into host-country labour markets and concomitant

effects for natives. They investigated the use of social benefits by immigrants as well: as immigrants are more often outside of the labour force or unemployed, it has been assumed that they spend more time on welfare and other forms of social assistance compared to natives. Migrants frequently look for higher income levels, better personal safety, short distance to home countries, and established immigrant networks as the main reasons for choosing their new host countries (e.g. Kerr, 2013).

Econometric studies tend to support the importance of income differentials, which is also evident in comparisons of income or GDP levels between host and source countries. Some empirical studies estimate the fiscal impacts of immigration: there certainly exist large differences across migrant groups in the costs and benefits they cause for a host country; the net impact depends heavily on the migrants' age, education, and duration of stay (e.g. Dustman, 2008). Enlargement of the EU and the opening up of borders encourage economic migration of population (Terenzami, 2014).

Slovakia and Latvia are the countries with a high rate of youth emigration. The most significant reason for emigration is the economic situation in both countries: a high unemployment rate and low wages. People from Latvia and Slovakia most often emigrate to Ireland, the United Kingdom, and Germany. For people from Slovakia, the most popular host countries are the Czech Republic and Austria.

The findings elicited from various studies on the emigration problems in Latvia underline the fact that these problems are very significant in Latvia and they are to be solved at the governmental level. Hazans M. (2011) emphasizes that the main emigration segments during the research period were in the following age group 15-24. Apsite-Berina, E (2013) denoted that more than 120 thousand inhabitants of Latvia had emigrated to the UK in 2004-2012. Ireland, the UK, and Germany are the main destinations of labour from Latvia (Hazans, 2012). Many researchers have indicated the need for the establishment of organizations which deal with the monitoring and regulation of international migration where policy can effectively manage it at the central rather than the local level (Andrasova, 2014).

The aim of this research study is to evaluate and to compare the economic situation in Slovakia and Latvia as well as in the destination countries of migrants, and to develop proposals to reduce the emigration flow from these countries.

To accomplish the aim of the research study, several objectives have been defined:

- to compare the changes in some macroeconomic figures of Slovakia and Latvia with the changes on average in the EU;

- to compare the changes in some macroeconomic figures for Slovakia and Latvia with the changes in figures for host countries of emigrants;
- to develop proposals to reduce the youth emigration flow from both countries.

The hypothesis of this research: it is possible to reduce the youth emigration flow from both countries by changing the approach to youth policy at the governmental level.

The main research methods are as follows: the descriptive method was employed to interpret the research results based on the scientific findings and theories; analysis and synthesis were used to examine individual problem elements and identify connections among them; induction was exploited to make scientific assumptions and identify a causal relationship of individual elements or facts; deduction was employed to logically systematise and explain the statistical data.

Research results

1. Comparison of changes in GDP in Latvia and Slovakia with changes on average in the EU

A comparison of annual GDP changes in Latvia, Slovakia and the changes on average in the EU is reflected in Table 1. Since the end of 2009, the economic recession in Latvia stopped and the growth resumed. From 2011 to 2013, the GDP increased on average by 4.7% per year, which was one of the highest growth rates in the EU (Baranovs, 2014). Regardless of the fact that the economy of Latvia has been growing in the recent years, the GDP is still 5.3 % lower than before the downturn in 2007. Slovakia recovered from the economic crisis, as it was one of the strongest and fastest-growing economies in the European Union, but the recovery of domestic demand lingered as both private consumption and investment stayed below their 2008 levels in real terms (Morway, 2013). In 2014 the domestic demand in Slovakia recovered and continued to grow at a faster pace. According to the Slovak statistical database of 2015, the real GDP grew by 3.5 % in 2014 as compared with 1.4% in 2013 (see Table 1).

Table 1 Annual GDP changes (%) in Latvia,
Slovakia and the average in the EU
(Source: compiled by the authors [17] [24])

| Years | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---------------|------|------|------|------|------|-------|------|------|------|------|------|
| Latvia | 8.9 | 10.2 | 11.6 | 9.8 | -3.2 | -14.2 | -2.9 | 5.0 | 4.8 | 4.2 | 2.4 |
| Slovakia | 5.2 | 6.5 | 8.3 | 10.7 | 5.4 | -5.3 | 4.8 | 2.7 | 1.6 | 1.4 | 2.4 |
| Average in EU | 2.5 | 2.0 | 3.4 | 3.1 | 0.5 | -4.4 | 2.1 | 1.7 | -0.5 | 0.0 | 1.3 |

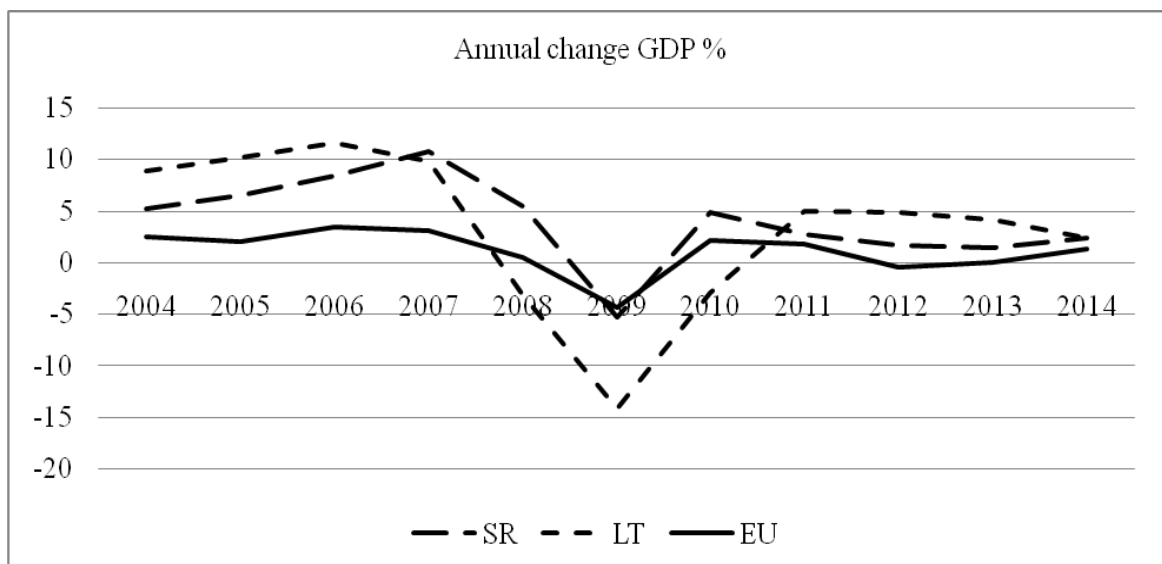


Fig.1 Comparison of annual GDP changes in Latvia, Slovakia and the average in the EU
(Source: compiled by the authors [17] [24])

The analysis of data (Fig.1) shows the dynamics of annual changes in the GDP in both countries and the average in the EU. The biggest annual changes in the GDP were from 2008 to 2010 because of the economic downturn in economies. The positive changes have taken place in Latvia and Slovakia since 2010. The changes in the GDP were higher than on average in the EU. The positive trends remained steady during the last 4 years.

2. Comparison of the rates of unemployment in Latvia and Slovakia with the average in the EU

The gradual improvement of the economic situation also positively affected the situation in the labour market – unemployment decreased. Since 2010 the number of the employed has increased gradually. The increase in employment is due to the recovery of economies. The current unemployment rate is mainly related to the cyclical unemployment.

In Slovakia the unemployment rate remained high at over 13%, despite the growth of employment throughout 2014. The labour market conditions were projected to improve together with the recovery in the economic activity. Long-term unemployment is a constant problem in Slovakia. (Terenzani, 2015)

Table 2 The rates of unemployment (%) in Latvia, Slovakia and the average in the EU
(Source: compiled by the authors [17] [24])

| Years | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---------------|------|------|------|------|------|------|------|------|------|------|------|
| Latvia | 11.7 | 10.0 | 7.0 | 6.1 | 7.7 | 17.5 | 19.5 | 16.2 | 13.9 | 11.5 | 10.5 |
| Slovakia | 13.1 | 11.4 | 8.0 | 8.0 | 3.5 | 12.1 | 14.4 | 13.6 | 14.0 | 14.2 | 12.3 |
| Average in EU | 9.3 | 9.0 | 8.3 | 7.2 | 7.1 | 9.0 | 9.7 | 9.7 | 10.5 | 10.8 | 12 |

The lowest unemployment rate in Latvia was in 2007, and the highest unemployment rate was in 2010. After 2011 the unemployment rate in Latvia decreased gradually. In Slovakia the lowest unemployment rate was in 2008, and the highest unemployment rate was in 2013.

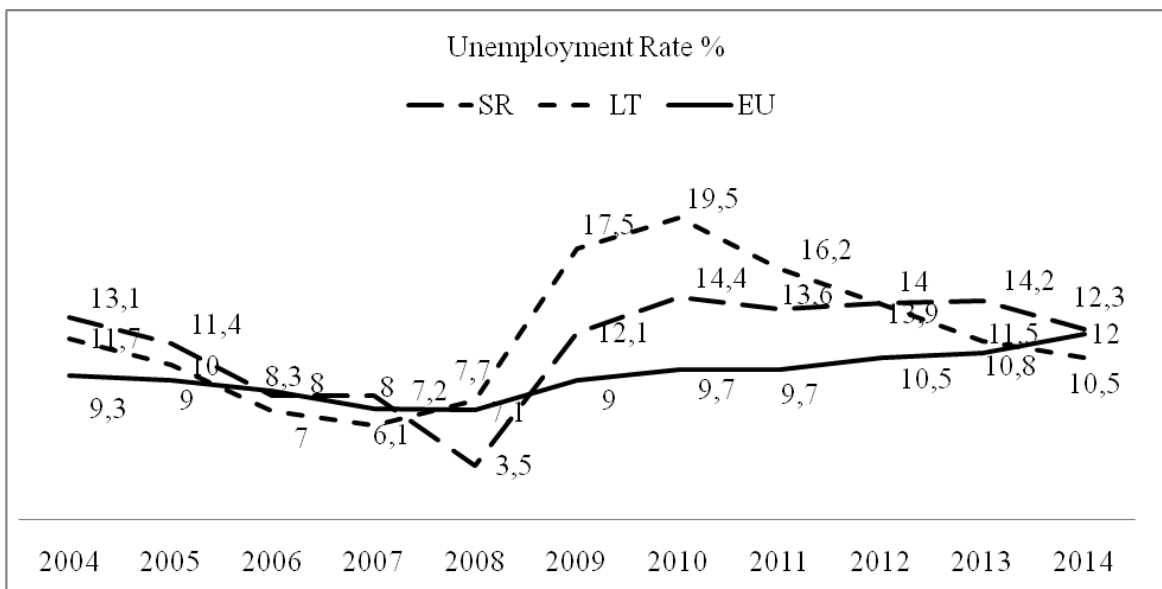


Fig.2 The rates of unemployment (%) in Slovakia, Latvia and the average in the EU
(Source: compiled by the authors [17], [24])

From 2010 to 2013, the unemployment rate in Slovakia changed slightly, remaining at around 14% (see Fig.2). Improvement in the labour market conditions was closely connected with the development of economic activities. Long-term unemployment is a constant problem in Slovakia and Latvia.

3. Comparison of the inflation rates in Latvia and Slovakia with the average in the EU

The rates of inflation in Slovakia and Latvia were higher than on average in the EU in 2004. After the accession to the EU, the inflation rate

in Slovakia decreased and approached the average in the EU until 2013, and in 2014 – the deflation reached 0.1%.

Table 3 The rates of inflation (%) in Latvia, Slovakia and the EU average
(Source: compiled by the authors [17] [24])

| Years | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---------------|------|------|------|------|------|------|------|------|------|------|------|
| Latvia | 6.2 | 6.7 | 6.5 | 10.1 | 15.4 | 3.5 | -1.1 | 4.4 | 2.2 | 0.1 | 0.8 |
| Slovakia | 7.5 | 3.7 | 4.2 | 3.4 | 4.6 | 0.9 | 0.7 | 4.1 | 3.6 | 1.4 | -0.1 |
| Average in EU | 2.0 | 2.2 | 2.2 | 2.3 | 3.7 | 1.0 | 2.1 | 3.1 | 2.6 | 1.5 | 0.6 |

A different situation was faced in Latvia – the inflation rate was much higher than on average in the EU, and in 2008 it reached 15.4%. In 2009 it decreased sharply to 3.5% and until 2013 the inflation rate in Latvia was much lower than on average in the EU (see Table 3).

4. Comparison of changes in gross wages in the source and host countries of migrants

The average gross wage in Latvia grew by 4.6 % in 2013, as compared to the previous year, and reaching EUR 716. In 2013, it was 5 % higher than before the downturn in 2008 (Table 4). The average gross wages in both countries are presented in Figure 3. The average gross wage in Slovakia grew by 1.2 % in 2013, as compared to the previous year, reaching EUR 969.1. In 2013, it was 16.3% higher than before the downturn in 2008. One of the reasons why not only young but also elderly people emigrate from Slovakia is low wages. People emigrate from Slovakia as they are trying to find better paid jobs abroad. Elderly people, especially women, move to Germany or Austria because social security for elderly people in these countries is higher than in Slovakia. Young people who decided not to continue their education in universities emigrate to the UK, Germany, the Czech Republic and Spain. After graduation, a lot of students emigrate because they do not see the opportunities to find any jobs in Slovakia. A similar situation is also encountered in Latvia.

In both countries, the average monthly wage grew gradually (see Fig.3). According to the statistics, the average wage in Slovakia was higher than in Latvia. A forecast was also positive.

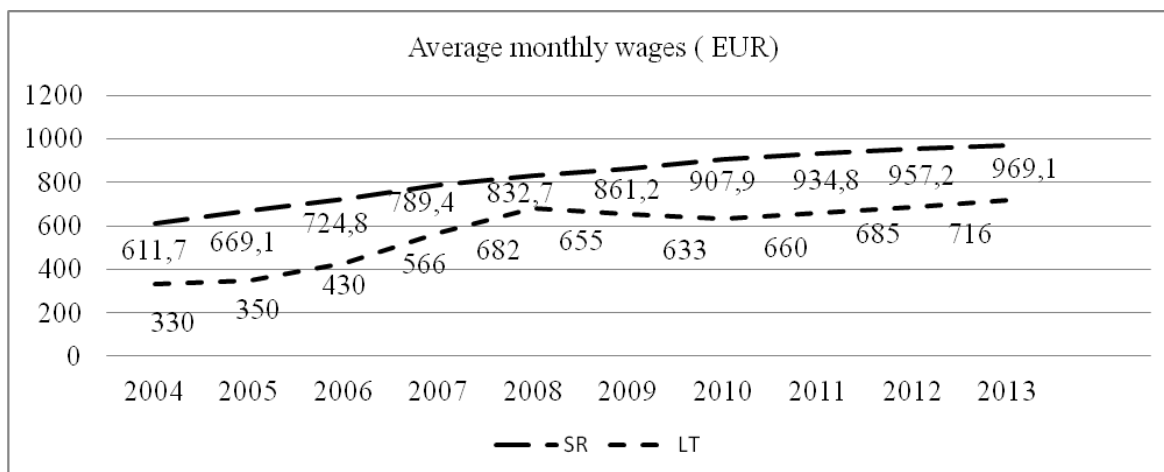


Fig. 3 The average gross wages in Slovakia and Latvia
(Source: compiled by the authors [17] [24])

The average monthly wage in the EU in 2012 was EUR 2,746 [24]. It means that the average wage in the EU was 3 times higher than in Slovakia or Latvia (Table 4). The average monthly wage in the UK in 2013 was EUR 3,663 and in Ireland it was EUR 3,948.8. It means that in the UK and Ireland, on average, wages were at least 4 times higher than in Slovakia and Latvia (Table 4).

Table 4 Gross average monthly wages in Ireland, the UK, Slovakia and Latvia, EUR
(Source: compiled by the authors [17] [18] [19] [24])

| Country | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---------|---------|---------|---------|---------|---------|---------|---------|---------|-------|---------|
| Ireland | 3,331.8 | 3,524.6 | 3,662.5 | 3,873.4 | 4,029.5 | 4,125.4 | 3,985.2 | 3,980.8 | 4,017 | 3,948.8 |
| UK | 2,919 | 2,977 | 3,126 | 3,277 | 3,336 | 3,400 | 3,478 | 3,545 | 3,609 | 3,663 |
| SR | 611.7 | 669.1 | 724.8 | 789.4 | 832.7 | 861.2 | 907.9 | 934.8 | 957.2 | 969.1 |
| LT | 330 | 350 | 430 | 566 | 682 | 655 | 633 | 660 | 685 | 716 |

Most people would like to see prospects for the development in their own countries and the economic well-being is not the only factor which makes them happy. Taking into account only the economic reasons, the positive solution to the youth emigration problem is not possible for at least next 30-40 years.

David Bartram (2013) explored the feelings of economic migrants - happiness among migrants and stayers in a number of European countries, investigating individuals from East European countries who went to Western Europe. The researcher noted that life in wealthier countries might be better, particularly for migrants who succeed in

improving their financial situation, but in general, people do not gain happiness from an increase in their incomes.

The consequences of emigration of well-educated people from the country are as follows: the country will not return the investments, which are used for the purpose of educating and training the young people who decide to leave the country after graduation; the intellectual potential and human capital of the country decreases.

A lot of students who decide to go abroad just in the frame of students' mobility programmes to gain new experience can look for possibilities after their mobility to stay abroad if they prefer working in another country.

The government of the Slovak Republic has suggested some ways to keep educated people in their own country, especially by creating more jobs for educated people, for example, by attracting investors who would increasingly employ highly skilled young people, providing more low-cost mortgages for young people, raising wages at universities and in the public sector, investing in research and development, providing tax relief for migrants returning to and investing in Slovakia and to provide a better education at Slovak universities.

The EU is a very important supporter of young people. The EU aims to raise the awareness of global issues among the young, to provide opportunities to exchange views with policy makers to foster mutual understanding, encourage the young to volunteer, promote entrepreneurship, employment, education and volunteering opportunities. There are the projects intended to support young people. For instance, Erasmus + project meant to support international mobility and international cooperation. These projects help young people become more active and more exposed to employment opportunities through education. Other possibilities are the cooperation with EU neighbouring partners, bilateral events between the EU and non-EU countries, which strive to promote intercultural dialogue and understanding between young people. The EU has produced a number of joint partnership projects focusing on issues of common interest such as employability and entrepreneurship, youth involvement in society, and voluntary activities. There is also a social programme of the European Union, from which Slovakia can use EUR 200 million in 2014 and 2015, which can be used to create jobs or to retrain young unemployed people. The aim of the upcoming project is to provide a chance for young people to find a job offer within four months after graduating, or a chance for further training or retraining. Latvia is participating in the EU Employment and Social Innovation Programme 2014-2020, which provides a very significant financial (around EUR 900 million) support.

Conclusion and suggestions

Latvia and Slovakia are the countries that are considered to be the countries with the lowest wages in the European Union. The rate of unemployment in these countries is higher than the average rate of unemployment in the EU, and the wages are lower than the average in the EU. The statistical data of Latvia and Slovakia show that people from both countries have emigrated to Ireland, the UK, and Germany because of higher wages and higher possibility to find a job. The consequences of emigration of well-educated people from the country are as follows: the country will not return the investments, which are used for the purpose of educating and training of these young people who decide to leave the country after graduation, the intellectual potential and human capital of the country decreases.

Each country should do its best to save the intellectual potential because human resources are the main source of country's development. Successful development of a country depends on knowledge, skills and competencies of human resources available in this country. The solution to the migration problem requires a strategic approach at the national level. It is necessary to develop a Human Resource Development Programme at the national and regional levels with the aim to create the interest of local people regarding business opportunities in their native regions. A high-quality Human Resource Development Programme and its successful implementation could also prevent the depopulation threats emerging in the region. One of the strategic directions of the Human Resource Development Programme should be training of young people. This training should be associated with specializations of the region in order to develop an awareness and interest of young people regarding their business opportunities in their own regions.

Creation of jobs will help to prevent youth emigration by using all the opportunities of the EU programmes which are related to youth employment.

Economic development requires a lot of well-educated employers. In this regard, labour education and training in Latvia and Slovakia should be changed to the following direction: graduates should be ready to become employers, not only employees. It is necessary to change the approach to teaching programmes already at an early stage of education with the aim to discover and develop new talents for business. The approach has to be shifted from preparing employees to preparing employers.

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DAŽU EKONOMISKO ASPEKTU IZPĒTE SAISTĪBĀ AR EMIGRĀCIJU: SLOVĀKIJAS UN LATVIJAS PIEMĒRS

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Kopsavilkums

ES valstu kopējā problēma ir augsts bezdarba līmenis jauniešu vidū. Daudzi labi izglītoti jaunieši emigrē no savām valstīm ar mērķi atrast darba iespējas ārzemēs. Slovākija un Latvija ir valstis, kurās ir sevišķi augsts jauniešu emigrācijas līmenis. Kā rāda pētījumi, galvenais emigrācijas cēlonis ir ekonomiskā situācija valstī – augsts bezdarba līmenis un zemas algas. Visbiežāk jaunieši no abām valstīm emigrē uz tādām valstīm, kā Īrija, Apvienotā Karaliste, Vācija, jo tajās ir iespējas atrast darbu un algas ir vidēji četras reizes augstākas nekā Latvijā. Parasti šie jaunieši ārvalstīs netiek nodarbināti atbilstoši kvalifikācijai, viņi tiek nodarbināti kā mazkvalificēti strādnieki. Tādā veidā valstis, no kurām emigrē jaunieši, zaudē labi izglītotus cilvēkus, bet valstis, kurās jaunieši imigrē, neizmanto viņu zināšanas un iemaņas vajadzīgajā līmenī. Tādā gadījumā migrācijas problēma pārtop par sociālo problēmu visā Eiropas Savienības līmenī. Pētījuma mērķis ir novērtēt un salīdzināt dažus ekonomiskos aspektus Latvijā un Slovākijā, kā arī valstīs, uz kurieni jaunieši imigrē. Pētījuma gaitā tika salīdzināti Slovākijas, Latvijas, ES, kā arī Apvienotās Karalistes, Īrijas tādu ekonomisko rādītāju dinamika, kā IKP, bruto darba algas, inflācija. Izstrādāti priekšlikumi, kas varētu mazināt intelektuālā potenciāla aizplūšanu no valstīm. Pētījuma gaitā tika izstrādāti priekšlikumi, kas nosaka, ka migrācijas problēmas risināšanai nepietiekoši ievērot tikai ekonomiskos faktorus, vajadzīga stratēģiskā pieeja nacionālā līmenī; ir nepieciešams attīstīt Cilvēkresursu attīstības programmu katrā valstī un reģionā ar mērķi paaugstināt vietējo jauno cilvēku interesi par biznesa attīstības iespējām dzimtajā reģionā. Kvalitatīva programmas izstrāde un tās veiksmīga ieviešana lielā mērā novērstu depopulācijas draudus reģionā. Kā viens no šīs programmas virzieniem varētu būt jaunu cilvēku apmācības, kas saistītas ar reģiona

specializācijām un ir nodefinētas reģionu attīstības stratēģijās. Tas palīdzētu radīt vietējo jauniešu sapratni un interesi par biznesa iespējām dzimtajā reģionā.

Izvirzītā hipotēze ir apstiprinājusies: ir iespējams samazināt jauniešu emigrāciju no valsts, mainot pieeju jauniešu politikai valstī

Atslēgas vārdi: *Ekonomika Latvijā un Slovākijā, nodarbinātība, minimālā alga, IKP.*

THE CONCEPTUAL CONTENT OF STATE BUDGET PROCESS IN ECONOMIC THEORY

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Abstract. *Evaluating the role of the budget in economy we may declare that the budget process should favour the social economic development of the state. The aim of the research is to explore and evaluate theoretical aspects of the state budget process as a component of the state financial policy and to work out proposals for improvement of the state budget process, based on the theoretical and empirical findings. The main objectives of the research were to study the foreign economic scientific literature on the state budget process in the context of theoretical aspects, to study the impact of the state budget process on the financial policy and to work out proposals for the perfection of state budget process. Generally accepted research methods of economic analysis were used: the qualitative – studying the special literature, scientific publications, morphologic comparison, the logically constructive method, the method of synthesis. As there are different views on the significance of the state budget process in the organization of state finances, the authors have specified the definition of the concept of the state budget process in the context of economics. It will ensure a unified understanding of the budget process as an important mechanism of state finance management. Therefore, a more profound theoretical research study on the state budget process is important.*

Keywords: *budget process, government finance, state budget, state financial policy, state finance management.*

JEL Code: *H50, H60, E66.*

Introduction

Since the middle of the 20th century the regulating role of the government in the economy has increased and made the concept of the state finance more topical. Thus, the state budget concept and activities related to its implementation, which are in general defined as the budget process, has become the object of political discussions. Therefore, it is essential to study the theoretical base of the concept of budget process. It is determined by several aspects but the most important is the existing understanding and interpretation of the concept in economics, which reflects different conceptions related to the state budget and its process.

As there are different views on the significance of the state budget process in organization of state finances, it is necessary to specify the

definition of the concept of state budget process in the context of economics. It will ensure a unified understanding of the budget process as an important mechanism of state finance management. Therefore, a more profound theoretical research study on the state budget process is important.

In research, attention is mainly focused on conceptual principles of the state budget process in the theoretical context. There is a discussion about the concept “state budget process”, understanding of its content, defining the main aim of the budget process, specifying tasks and evaluating possibilities for practical execution of the budget process.

The aim of the research is to explore and evaluate theoretical aspects of the state budget process as a component of the state financial policy and to work out proposals for the improvement of the state budget process, based on the theoretical and empirical findings.

In order to achieve the aim of the research, the following **objectives of the research** were put forward:

1. To study the foreign economic scientific literature on the state budget process in the context of theoretical aspects (definition, aim and tasks of the budget process).
2. To study the impact of the state budget process on the financial policy.
3. To develop out proposals for improvement of the state budget process.

Novelty of the research is a perfected and formulated definition of “state budget process”.

The authors put forward the following hypothesis – a specified definition of the state budget process and its consequent practical usage gives a possibility to improve the execution of the procedures of the state budget process.

Generally accepted **research methods** of economic analysis were used: qualitative – studying the special literature, scientific publications, morphologic comparison, the logically constructive method, the method of synthesis.

The informative and methodological basis of the research consists of the scientific theoretical literature, foreign researchers’ works and publications on the corresponding topic, encyclopaedic stocks and methodological literature.

1. The argumentation of research on the state budget process

The government’s implemented policy affects development of each country regarding the economic and social aspects. One of the main components is fiscal or budget policy. Traditionally, it is defined as

necessary revenue and expenditure formation policy ensuring the government's performance. However, in the economic interpretation, it is an economic regulation system by the instrumentality of taxes and government expenditure. It is closely related to the role of the state in the public income redistribution, determining the proportion of the state budget in the gross domestic product, defining the objectives for the overall tax burden, budgetary expenditure, allowable deficit, government debt level and structure.

Based on the assumption that fiscal policy is the use of the state budget with the aim to facilitate economic development and to ensure effective implementation of the financial policy, the emphasis is put on importance of the budget developed by the government and approved by the legislative power in the development of socio-economic processes.

Consequently, it is important to understand the procedures related to the state budget formation because, in general, it determines the formation mechanism of the amount of funds required by the government. All of this is marked by the concept "*budget process*", understood as activities of the regulatory authorities in compliance with the legislative procedure in the development, consideration, adoption and execution, control and drafting of a report on the execution of a budget being the main plan in relation to public finance.

It is essential to comprehend the state budget process in the public finance context, as it is:

- a government's policy implementation process whereby the instrumentality of the budget, the funds for the government's planned activities are ensured; the choice is made, first of all indicating the tax burden concerning tax types and categories of taxpayers, secondly, classifying the government's functions by putting forward the prior ones;
- a decision-making process resulting from political debates in regard with the formation and allocation of financial resources of the government, which in its turn is related to the identification of priorities and the choice of the necessary expenditure;
- a process of formation and strengthening of subjective viewpoints that affect the state budget policy, consequently the public welfare in general.

Accordingly, speaking about the budget process, not only the public finance but also political aspects are significant, an essential element of the budget process has become the behaviour of specific people and groups in the fiscal decision-making that usually leads to unreasoned, irrational actions in the public finance management. As a result of the

unreasonable fiscal policy in the sphere of regulation of the state finances there is a necessity to establish a new budget policy, which would be related to cardinal changes in the budget process, new approaches and understanding of composition of the state finances.

The most important problem that was put forward is the problem of stabilization of the state finances; its main solution is focused on the reduction of the state budget expenses. However, the reduction of the state budget expenses is still happening mechanically, without economic evaluation of the government's functions, their performance in work of the involved institutions.

Possibilities for reduction of the government's expenses are also accentuated already in the process of the budget planning, increasing the responsibility of users of the budget finances in it (Stewart, 2009). It is particularly urgent in the situation when there is a period of decline or crisis in the economy, and the collection of necessary revenues for the budget is problematic, which defines the immediate need in activities of fiscal consolidation, which are important at the moment for budget development of European countries. It could be concluded that now there is a necessity for more effective regulation of public finance, which is possible by evaluation of the socio-economic meaning of state budget.

2. Economic interpretation of state budget process

In foreign economic literature, budget has been the main object of investigation in the financial sphere. It determined the fact that mainly problematic issues of the state revenue and expenditure have been investigated. In the 1980s, when the state budgets increased, the budget deficit grew, research studies on the procedures of budget-making, their influencing factors and involved participants were actualized.

The conceptual investigation on the concept of state budget process within the public finance context is represented by different directions of economic research studies.

It is necessary to stress that the first person who pointed out the budget process as a set of political activities, was a society researcher from the USA – A.Wildavsky. Specific research studies of the aspects of the budget process were done by R.T.Meyer, D.Nice, A.Jennifer, when discussing the principal theoretical issues of the given concept, but I.Rubin contributed to the investigation of the budget process by proving the fact that it is not a static but dynamic process and it is influenced by a range of various factors.

In the field of ensuring the efficiency of state expenditure management, significant research studies were done by J.E.Stiglitz, A.Premchand, justifying the importance of qualitative and quantitative

indicators in formation of the government's expenses. Investigation of the institutional conditions of the state budget making was done by American economist W.A.Niskanen.

Issues of budget consolidation in the field of improvement of the state financing regulation were investigated by J.Von Hagen, A.H.Hallet, R.Strauch, C.Mulas-Granados.

Issues concerning the budget process were also highlighted by the following representatives of Russian academic schools: L. Pavlov (*Л.Павлов*), S. Galyskaya (*С.Галицкая*), A. Babich (*А.Бабич*), L. Drobozina (*Л.Дробозина*), J. Konstantinova (*Ю.Константинова*), M. Romanovski (*М.Романовский*), B.Sabanti (*Б.Сабанти*) et al.

Irrespective of research studies concerning the budget process made by the authors mentioned above, it can be asserted that there still are a number of unsolved problems both within the theoretical interpretation of budget process and the practical context of its implementation, especially when taking into consideration the national, economic and political features of each country.

Not taking into consideration the meaning of state budget, an important role is attributed to activities of national institutions, ensuring development, discussing, ratification and realization of the budget as a state financial plan. In economic literature, the activities which follow each other are called the budget process, to which a significant attention is attributed within the research studies concerning the role of state finances during implementation of state socio-economic policy. However, it should be emphasized that when discussing the budget process, different authors have different opinions and definitions of the term itself. Therefore it could be asserted that the concept "state budget process" is not unequivocally defined.

Economist, professor of Harvard University, Jeffrey D. Sachs declares that government is not ruled by one person or one political party, therefore the fiscal policy is the set of activities of the decision-making agencies, for instance, the central government, regional governments, big national companies. Therefore, the theories, stressing the necessity for rational fiscal policy, should take into consideration the fact that the fiscal policy in general is a result of complicated political process. Therefore it is related both to the institutional and political circumstances in which the government has to make its decisions (Sakss, 2002).

USA economist Ronald Fisher, when studying public finance, uses the term "Government Budget Process". R.Fisher stresses the following main aspects (Fisher, 1996):

Taking into consideration the fact that budget is a plan by which government envisages to reach its targets for public influence and

improvement, then the process prescribing the budget, firstly is impacted by the economic situation;

Duration of the state budget process and its characteristic partial mixing with government activities is usually connected with problems in forecasting economic processes;

During the process of state budget there are high chances to enforce some constraints.

R.Fisher updates the fact that the main meaning of activities related to a budget is the measures performed by the government. Thus the role of subjective factor during the budget process is activated.

Significant research studies on processes of state budget are performed by Irene S. Rubin. She uses this term to denote both the *Politics of Public Budgeting*, and *Budgetary Decision Making*, as well as she uses the term *Budget Process* (Rubin, 1997). She considers that due to different descriptions of state budget process it can be understood as a report on data, composed concerning a particular period of time, therefore a budget could be understood as a technical event. However, I.Rubine emphasizes that the state budget process, firstly, is the flow of adequate decisions, and it is a political process, since it creates the budget power, which in its turn ensures all the process participants have stronger positions in comparison with others. It is asserted that competition is going on both between individuals and commissions or committees in legislation and between Legislative Power and Executive Power itself. In this aspect we could agree with Joseph White's , since he thinks that competitiveness between participants involved in the budget process is prescribed by different motivations (Rubin, 2008).

Summarizing the opinions reflected within research studies on the state budget process, there could be posed the following features being characteristic to the budget process, which influences the activities determining state budget differently (Figure 1).

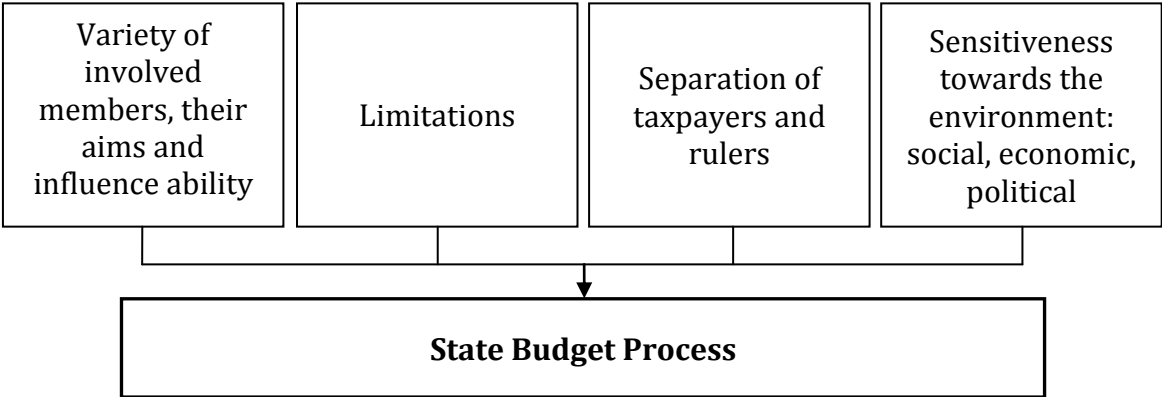


Fig.1 Main features of the State Budget Process
(Rubin, 1997; Nice, 2002; Mikesell, 2006)

It can be concluded that for the research study on the state budget process, the following aspects should be taken into consideration:

Variety of its participants, their aims and skills of influence. This characteristic feature of budget, stressed by I.Rubin, is also emphasized by D.Nice in his research studies; he points that the state budget process involves different participants who have various opportunities to influence the course of particular process. I.Rubin considers the Executive Power and the Legislative Power as main representatives of budget process, which have different goals; it is also stressed that citizens traditionally have a smaller impact on the process. However, D.Nice has a more detailed opinion within the context of participants involved in the budget process. The mentioned economist divides the participants of state budget process into formal ones (President, Prime Minister, representatives of decision-making and Executive Power, representatives of local powers, managers of institutions) and informal ones, id est, different interest groups, for instance, retirement associations, trade unions, as well as political parties and mass media (Nice, 2002). So, there is emphasized significance of possible influence of public representatives, and for the comprehension of the state budget process concept it is necessary to accept the difference in its participants, their goals and influence abilities as the precondition for the changeability and variability of budget process.

Separation of payers and decision-makers due to the fact that during the budget process, public thoughts can be taken into account or ignored. In this context, the level of publicity within all activities related to the state budget is essential, since a budget shows how public money is collected and how effectively it is put into use. We could agree with I.Rubin's that the level of agreement between decision-makers and society is prescribed by tolerance, while conflicting and competing during the budget process (Rubin, 1997).

Limitations, because the state budget always has limits for satisfying of all needs; thus during the budget process decisions are made regarding priorities for ensuring necessary financial means and their disposal. D.Nice considers that the necessity for fiscal limitations is connected with control measures in the budget process (Nice, 2002).

Sensitivity towards the environment, which means that the state budget process is not only influenced by its participants' efforts, but there should also be taken into consideration the changes in social, economic and political environments, influencing both the income and expenditures. This opinion is supported also by J.White in his discussions about the budget process, where he emphasizes that "nothing can be more society-sensitive" (Rubin, 2008).

The authors agree with the affirmation that the state budget process as a research object is universal and very controversial, as it is influenced by many factors and a broad variety of interpretation. The state budget process has been examined from the economic, public choice and public administration point of view, as well as in aspects of political science and political anthropology (Rubin, 2008).

It could be asserted that for the study of problems related to the state budget process, the following assumptions should be taken into account:

- The sphere of budget process activities is very dynamic and open for different opinions, therefore the research studies should emphasize the sensitivity of dynamics, while modifying theories;
- The budget process is influenced by its formation size, id est, by the fact whether it is predominated by Executive or Legislative Power, whether it is a budget of programmes, positions or institutions. Budget formation procedures influence not only the representation level of members of different budget processes, but also the provision of results and greater or smaller transparency of budget process;
- The budget process is promoted not only by particular rules, but also by a range of different norms and standards, prescribing the principles and guidelines of fiscal activity;
- The budget process differs in democratic and authoritarian countries; therefore society more or less democratically relies on transparency and responsibility in the budget process, as well as the government's sympathy towards public priorities.

We should agree with the opinion that the state budget process is partially technical. However, its politicization should be emphasized, because each political power is interested in gaining higher budgetary authority by the help of which the members of budget process could achieve their political goals (Rubin, 1997; Nice, 2002). The dependence of budget-related activities on political powers is substantiated also by Harvard professor of economics Kenneth Rogoff. He suggested term „*political budgetary cycle*“. However, he considers that irrespective of the political budgetary cycles as a negative thing, they can influence the welfare of a country in a way, because thus society receives information about administrative competences of politicians. It is emphasized that especially in the year of elections, the budget-related activities are distorted, thus negatively influencing the national fiscal policy (Rogoff, 2003).

Professor from Washington University David Nice emphasizes that the state budget process is the creation and accomplishment of government decisions concerning monetary fund-raising, allocation and disposal of these means. We should agree with the author's opinion that the given definition is quite wide and by this interpretation the budget process becomes an analogue to government policy-making. Therefore it is accentuated that the state budget process nowadays has become a set of disputable and complex activities (Nice, 2002).

Professor from Indiana University John L. Mikesell lays stress on the term "budgetary cycle" within the context of state budget process, defining it as a periodical and partially overlapping arrangement within the process of budget planning and disposal (Mikesell, 2007).

Not denying the interpretation of previous formulations, the authors consider that the terms "budget process" and "budgetary cycle" are not translatable analogues, because the word "cycle" means a totality of particular processes, which usually are repeated (Baldunčiks, 1999). We can agree with D. Nice's that the budget cycle is an implementation of stages of a particular year's budget processes. It is important to emphasize the significance of information in budget formation. Within the research studies on the state budget process, it is declared that the fiscal cycles are mutually connected by time, because the data of annual budget audit and evaluation provide significant information for the formation of the next year's budget.

It can be concluded that every budget process has its own individual cycle. It is influenced not only by the provision of administrative measures generally related to the budget formation, but also the sensitivity characteristic to the budget towards environmental changes – economic, social and political.

The conceptual study of the state budget process indicates that there is still no common opinion regarding the role of budget process in the effective organization of national finance. Especially nowadays some uncertainties, controversial issues are appearing, proving the topicality of this issue. Therefore it is necessary to search for practical solutions, offering a new approach for provision of budget processes.

When performing a theoretical and methodological examination of the concept of the budget process, the authors conclude that in the economic literature there is a variety of opinions on explanations of the concept "state budget process" and actions that it consists of. Consequently, there is no united methodology for the identification of the mentioned concept. For that reason, in order to ensure a harmonized understanding, the authors believe that it is necessary to actualize the

following two important concepts when defining the state budget process:

- *state budget*, which is defined in different ways in the economic literature, but mainly it is emphasised that it is a list of state revenues and expenditures, which is approved in a legal way; it is done for a concrete period of time with the aim to define and justify the amount of finances that is needed by the government for execution of the state duties, financing of which is defined by laws and regulations guaranteeing that within the definite period of time corresponding revenues would cover expenditure;
- *process*, which derives from the Latin word “processus” meaning advance (Švābe et al., 1927) Nowadays this word is defined as a set of successive actions for achievement of a definite aim, result (Bāliņa et al., 2006).

The authors advise to define more exactly the concept “state budget process” in such an interpretation: the state budget process means successive continuous actions of institutions of the state executive power and decision-making power actions in creating and securing the budget as the main state financial plan, which are defined by the law and include – budget planning, reviewing the budget project, approval of the law on the budget, organization of budget execution, ensuring its control, as well as evaluation of the budget execution.

This interpretation of the definition of the state budget process includes significant aspects of this concept:

- main participants are representatives of the executive power and decision-making power;
- the goal is the state financial plan as the main tool for the implementation of the government’s fiscal policy;
- defining fiscal activities for achievement of a specific goal;
- segmentation of budget action, their interaction.

Introducing a unified interpretation of the definition of the state budget process in the economic and legal terminology, the authors consider that the following problems will be solved:

1. The unified comprehension of the term “state budget process” will be developed, ensuring coordinated discussion about all issues within the mentioned context, especially within the definition of stages of budget process with the aim to identify the most important factors influencing it;
2. Since the state budget process includes a range of important stages, it should be stipulated within the law regulating the state budget, which in its turn is pointed towards ensuring a

clear technical basis, preventing legal incomprehension within administrative, implementation and control fields of fiscal measures.

Therefore the conditions for effective public financial management become clearer. The main components of these conditions are reflected in Figure 2.

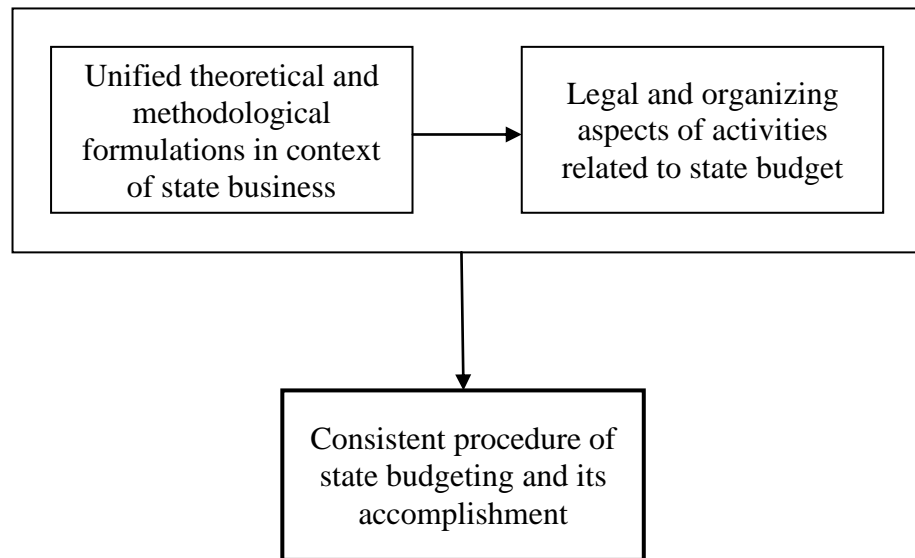


Fig.2 Main conditions for the efficiency of state financial system
(compiled by the authors)

Due to the fact that theoretical opinions are traditionally based upon the evaluation of practical activity, the issue concerning accepting theoretical opinions with the aim to improve practical activity within the sphere of public finance within the context of budget process is urgent. For the theoretical study of the state budget process, it is necessary to define unequivocally its concept, determine its role, emphasizing the potential impact of included procedures and activities of participants upon the implementation of the national fiscal policy.

In this context, we cannot ignore the subjective factor, because all participants of the budget process are characterized by interest in increasing their opportunities during the formation of state budget.

During the implementation of the state budget process, the development of unified comprehension regarding public interest in general is very urgent.

Conclusions and suggestions

Based on the assumption that fiscal policy is the use of the state budget with the aim to facilitate economic development and to ensure effective implementation of the financial policy, the emphasis is put on

the importance of the budget developed by the government and approved by the legislative power in the development of socio-economic processes.

Consequently, it is important to understand the procedures related to the state budget formation because, in general, it determines the formation mechanism of the amount of funds required by the government. All of this is marked by the concept “*budget process*”, understood as activities of the regulatory authorities in compliance with the legislative procedure in development, consideration, adoption and execution, control and drafting of a report on the execution of a budget being the main plan in relation to public finance.

The conceptual investigation on the concept of state budget process within the public finance context is represented by different directions of economic research studies.

Irrespective of research studies concerning budget process, it can be asserted that there still are a number of unsolved problems both within the theoretical interpretation of budget process and the practical context of its implementation, especially when taking into consideration the national, economic and political features of each country.

The authors agree with the affirmation that the state budget process as a research object is universal and very controversial, as it is influenced by many factors and a broad variety of interpretation. The state budget process has been examined from the economic, public choice and public administration point of view, as well as in aspects of political science and political anthropology.

When performing a theoretical and methodological examination of the concept of the budget process, the authors conclude that in the economic literature there is a variety of opinions on explanations of the concept “state budget process” and actions that it consists of. Consequently, there is no united methodology for the identification of the mentioned concept.

The authors advise to define more exactly the concept “state budget process” in such an interpretation: the state budget process means successive continuous actions of institutions of the state executive power and decision-making power actions in creating and securing the budget as the main state financial plan, which are defined by the law and include – budget planning, reviewing the budget project, approval of the law on the budget, organization of budget execution, ensuring its control, as well as evaluation of the budget execution.

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- main participants are representatives of the executive power and decision-making power;
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- segmentation of budget action, their interaction.

Introducing a unified interpretation of the definition of the state budget process in economic and legal terminology, the authors consider that the following problems will be solved:

- The unified comprehension of the term „state budget process” will be developed, ensuring coordinated discussion about all issues within the mentioned context, especially within the definition of stages of budget process with the aim to identify the most important factors influencing it;
- Since the state budget process includes a range of important stages, it should be stipulated within the law regulating the state budget, which in its turn is pointed towards ensuring a clear technical basis, preventing legal incomprehension within administrative, implementation and control fields of fiscal measures.

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VALSTS BUDŽETA PROCESA KONCEPTUĀLAIS SATURS EKONOMIKAS TEORIJĀ

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Kopsavilkums

Izejot no valsts budžeta nozīmes, svarīgu lomu iegūst valsts institūciju darbības, kuras nodrošina budžeta kā valsts finanšu plāna veidošanu, apspriešanu, apstiprināšanu un izpildi. Ekonomiskajā literatūrā šīs viena otrai sekojošās darbības tiek apzīmētas ar vienu terminu – budžeta process, kuram pētījumos par valsts finanšu lomu valsts sociāli ekonomiskās politikas īstenošanā arī tiek pievērsta būtiska uzmanība.

Pētījuma mērķis ir izpētīt un izvērtēt teorētiskos valsts budžeta procesa aspektus un, balstoties uz empīriskajiem secinājumiem, izstrādāt priekšlikumus valsts finanšu politikas pilnveidošanas kontekstā.

Pētījumā izmantotas galvenokārt kvalitatīvās pētījuma metodes: kontentanalīze - speciālās literatūras, zinātnisko publikāciju izpēte, morfoloģiskā salīdzināšana, loģiski konstruktīvā metode, sintēzes metode.

Autores secina, ka dažādiem autoriem, diskutējot par budžeta procesu, veidojas atšķirīgi viedokļi un arī paša termina formulējumi. Līdz ar to var apgalvot, ka jēdziens „valsts budžeta process” nav viennozīmīgi definēts. Tiek piedāvāta unificēta valsts budžeta procesa definīcija.

Vienotas valsts budžeta procesa definīcijas interpretācijas ieviešana ekonomiskajā un juridiskajā terminoloģijā ir vērsta uz šādu problēmjautājumu risināšanu:

- veidosies vienota izpratne par jēdzienu „valsts budžeta process”, kas nodrošinās saskaņotu diskusiju par visiem jautājumiem minētajā kontekstā, it sevišķi budžeta procesa posmu definējumā ar mērķi identificēt būtiskākos tos ietekmējošos faktoros;
- tā kā valsts budžeta process ietver sevī virkni nozīmīgu posmu, tad tam visam jābūt atrunātam valsts budžetu reglamentējošā likumā, kas savukārt ir vērsta uz skaidras tiesiskās bāzes nodrošināšanu, novēršot trūkumus fiskālo pasākumu administratīvajā, izpildes un kontroles jomā.

Līdz ar to tiek nodrošināti izprotamāki efektīvas valsts finanšu pārvaldības nosacījumi. Tādejādi pētījuma sākumā izvirzītā hipotēze ir apstiprinājusies.

Atslēgas vārdi: *budžeta process, valsts budžets, valsts finanses, valsts finanšu politika, valsts finanšu vadība.*

YOUTH UNEMPLOYMENT AND ITS MAIN CAUSES IN LATGALE REGION

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Abstract *Youth unemployment is an urgent problem in the European Union, as well as in the regions of Latvia. The research aim is to examine the trends and the causes of youth unemployment in Latgale region and to make proposals for improving the situation.*

Youth unemployment is a significant problem in Latvia, as unemployed youngsters make up 13.1% of the total number of unemployed in the country, while in Latgale region the number of unemployed young people aged of 15-24 amounted to 8.8% of the total number of unemployed in 2014.

The novelty of the present research is that the known unemployment causes for youths (aged of 15-24) were defined more precisely and new causes of youth unemployment in Latgale region were revealed. In Latgale, there are various causes of youth unemployment, such as lack of professional skills, poor preparedness for the labour market, lack of foreign language skills (especially the Russian language) as well as lack of social competences (cooperation or work in a team, communication, skills to take responsibility and lack of self-confidence).

Keywords: *youth unemployment; causes; employment*

JEL code: *J000*

Introduction

The future of Latvia's regions and the entire European Union depends, to a great extent, on human capital, especially young people who begin working or soon are going to start their careers.

Youth unemployment is an urgent problem in the European Union, as well as in the regions of Latvia. Increasing the employment of young people and reducing unemployment in Latvia's regions decreases migration, improves the economic situation and raises the wellbeing and standard of living of every youngster.

Employment problems in Latvia and elsewhere in the world have been researched by a number of authors: Niklass M. (2013), Saulāja I.,

Rasnača L., Krūzmētra Ž., Bite D. (2007); Saulaja I., Rasnača L. (2008); Rasnaca L., Kruzmetra Z., Bite D., Saulaja I. (2008); Adamonienė R., Čiutienė R. (2010); Zvaigzne A. (2012); Zvaigzne A., Saulaja I., Zeiferte D. (2013); Zvaigzne A., Saulāja I., Čerpinska A (2013); Zvaigzne A., Saulāja I. (2013); Zvaigzne A., Saulaja I., Zeiferte D. (2014) et al.

In recent years in Latvia, youth unemployment and employment problems were examined from various perspectives. Most research studies on youth employment mainly focus on identifying factors and conditions that promote or hinder the integration of young people into the labour market. Researchers explain the problem of youngsters' integration into the labour market by the lack of human capital in them, i.e., the lack of work experience, knowledge and skills. Researchers also point that the social environment and the network of social contacts and its quality (i.e., social capital) characteristic of a certain social group greatly influences youngsters' choice of careers and work opportunities. Finally, a number of researchers justify the problem of youngsters' integration into the labour market by various conditions young people cannot control or influence, for example, the overall economic situation, poverty, high unemployment, social exclusion, the closed labour market or its segmentation and discrimination by employers and the public. Researchers also mention a number of other factors – the need to walk long distances to school, emigration, low achievers, health and adverse effects of your friends – who can influence young people's studying and relationships with teachers (Niklass M., 2013; Kraitone et al, 2006; Pigozne T., 2014).

When structural unemployment prevails in the country, it is important to improve labour market professional preparation: taking into account market and personal interests, to increase the variety of proposed training programs. Career design specialists have to consult youngsters in territorial jobcentres for these purposes. Young man, who attained the profession meeting his interests and simultaneously marketable in the labour market, will be able to find or to create own workplace. (Adamonienė R., Čiutienė R., 2010)

The conditions and causes of youth unemployment can change; therefore it is necessary to update information on them. By identifying the causes and seeking to avoid them, it is possible to reduce youth unemployment in Latgale region.

The research aim is to examine the trends and the causes of youth unemployment in Latgale region. To achieve the aim, the following research tasks were set:

1. To examine information on the trends in youth unemployment in Latgale region;

2. To identify the key causes of youth unemployment in Latgale region.

Research hypothesis: Youth unemployment in the region of Latgale has various causes.

The novelty of the present research is that the known youth unemployment causes (aged of 15-24) were defined more precisely and new causes of youth unemployment in Latgale region were revealed.

To perform the tasks set in the present research, a number of research methods were used: the monographic and descriptive methods as well as analysis and synthesis, the graphic method and statistical analysis – correlation analysis – a sociological method – discussion in small focus groups (4-5 participants in a group). Eight focus group discussions were conducted for the present research.

The present research is based on various scientific publications, publicly available documents, information available in databases of the Republic of Latvia, discussions of a focus group, and other sources.

Trends in youth unemployment in Latgale region

State Employment Agency (hereinafter – the SEA) data of 2014 show that youth unemployment is an urgent problem in Latvia, as 7522 individuals or 13.1% of the total number of the unemployed in the country were young people, while in Latgale region 1721 unemployed individuals aged of 15-24 or 8.8% of the total number of unemployed were youngsters. In 2014 compared with 2010 in Latvia and in Latgale region, the number of unemployed youngsters declined, by 68% and 64%, respectively (Figure 1), because, according to the CSB, the number of economically active individuals (aged of 15-64) decreased by 6.6% in the same period.

In 2014, in Latgale, the majority of young people – 66% or 139 individuals – were granted the status of unemployed, as they terminated their labour relationships. In 2014 compared with 2010 in Latgale, the number of such youngsters declined by 19% or 40 individuals.

It is likely that youth in Latgale are not interested in working, as new vacant jobs of low qualification with low social guarantees and a low wage are registered in greater numbers in this region than elsewhere in Latvia.

Such jobs are as follows: stokers, sales clerks, unskilled workers, tailors and others. In Latgale, there are job vacancies, the demand for which is greater than the supply, for instance, medical employees, education employees, psychologists and others.

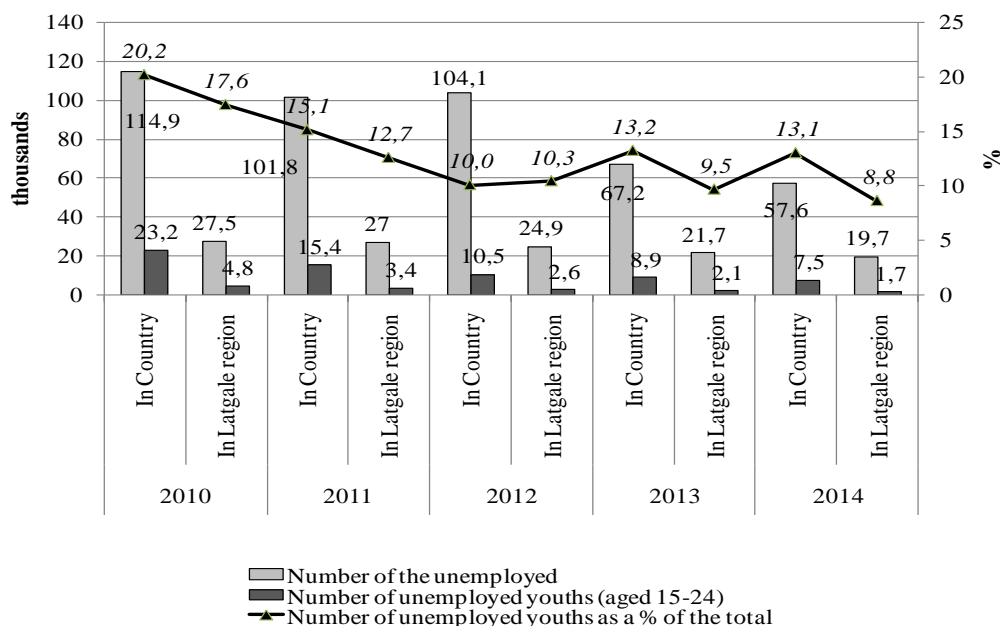


Fig.1 Youth unemployment in Latvia and Latgale region in the period 2010-2014
(Source: SEA data)

As shown in Figure 2, in 2014, 25 youngsters or 11.8% of the total were granted the status of unemployed after their childcare leave, while 20 youngsters or 9.5 % got this status upon graduating from an education institution, 1 youngster or 0.5% was granted the status of unemployed after release from imprisonment and 26 people or 12.3 % had other reasons.



Fig.2 Percentage distribution of the reasons of granting the status of unemployed to young people in the period 2010-2014 (end of the year) in Latgale
(Source: SEA data)

According to the SEA, in 2014 in Latgale region, 105 youngsters or 53% (Figure 3) of the total were removed from the records of unemployment because they did not fulfil their duties of unemployed person.

The number of such unemployed young people decreased by 59% or 154 individuals in 2014 compared with 2010.

In 2014, 81 youngsters or 40% of the total lost their status of unemployed, as they got a job. However, in 2014 compared with 2010, the number of such young people who got a job and lost the status of unemployed decreased by 17% or 17 individuals.

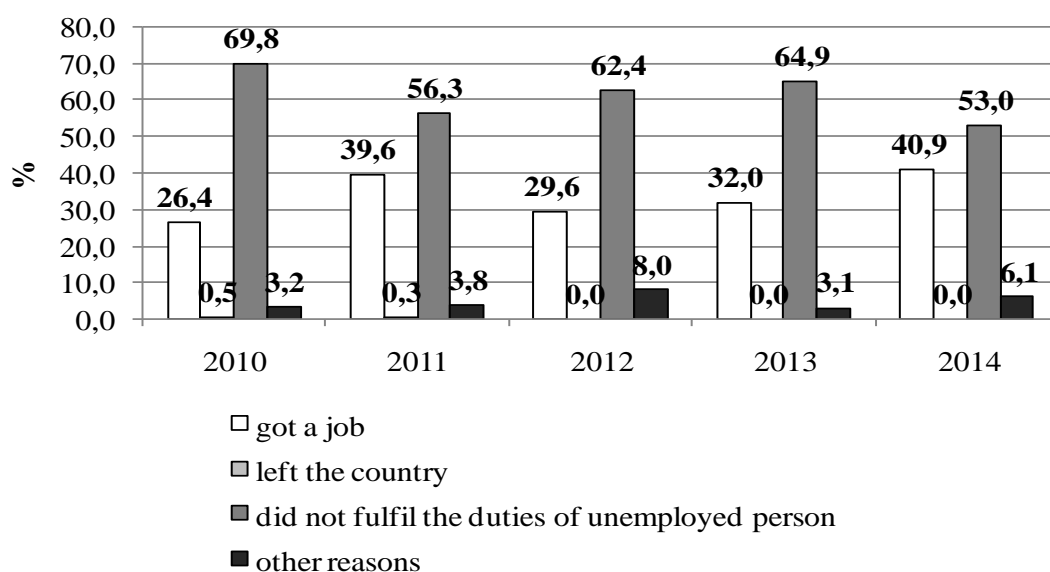


Fig.3 Percentage distribution of the reasons of removing youngsters from the records of unemployment in the period 2010-2014 (end of the year) in Latgale
(Source: SEA data)

According to the SEA, in 2010 in Latgale region, the highest proportion of youngsters – 2900 or 60% of the total – had general education; professional education was acquired by 1359 unemployed young people or 28% of the total. Yet, in 2014 compared with 2010, the number of unemployed young people with general education decreased by 83% or 2415 individuals, with professional education – by 57% or 773 and with higher education –by 62% or 219 individuals (Figure 4).

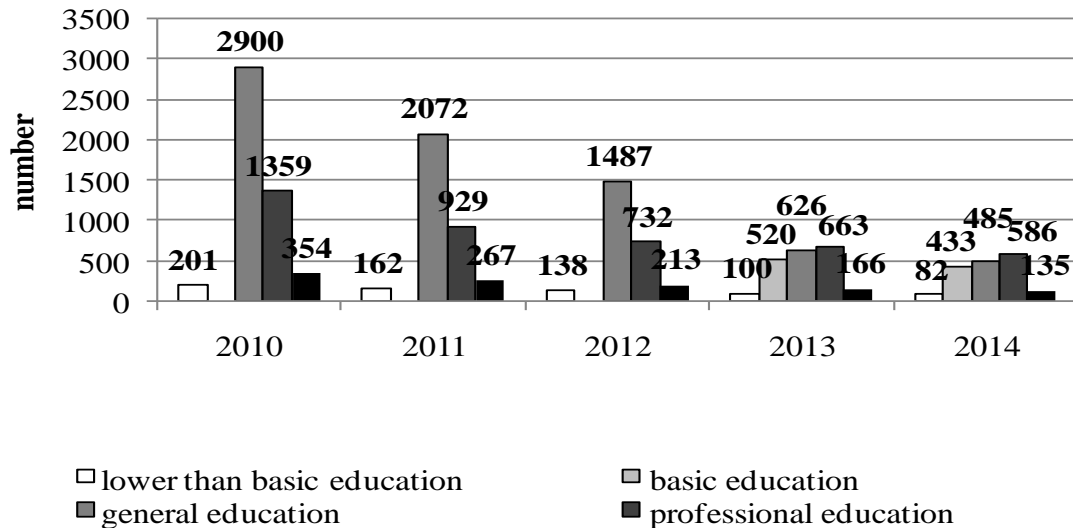


Fig.4 Distribution of unemployed youngsters by education level in the period 2010-2014 in Latgale
(Source: SEA data)

A correlation indicates an association between two or among several variables (i.e., if one variable changes, the other also changes) (Arhipova I., Balina S., 2003). A correlation analysis performed in the research shows that there is a medium strong correlation between the number of youngsters who get a job and their education level: $r=0.62$ for higher education; $r=0.59$ for professional education; $r=0.64$ for general education and $r=0.60$ for lower than basic education.

The longer the unemployment period is, the greater influence it makes on young people: declines in self-confidence and health, stress, etc.

The SEA data show that in Latgale, among the unemployed, youngsters are those who find a job faster than others. In 2014 compared with 2011, the number of young people being unemployed for more than 3 years decreased by 12% or 8 individuals (Figure 5). Further, the research will focus on the causes of youth unemployment in Latgale region.

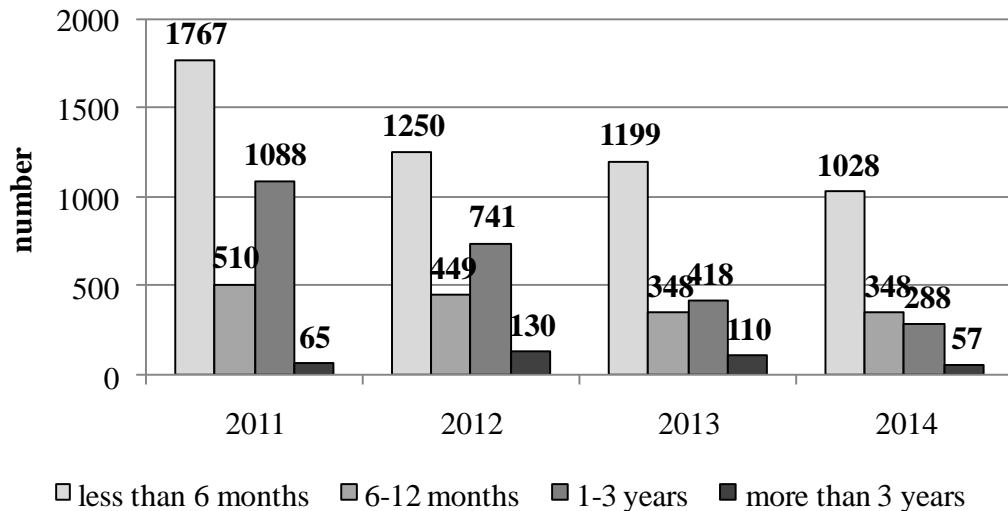


Fig. 5 Distribution of unemployed youngsters by length of unemployment in the period 2011-2014 in Latgale
(Source: SEA data)

Causes of youth unemployment in Latgale region

Discussions in small focus groups were conducted to identify the causes of youth unemployment in Latgale region. Focus group discussions are useful for in-depth examinations of opinions and reactions in a certain target population as well as for finding new creative solutions. This method allows seeing the behaviour, attitude and emotions of respondents, understanding and analysing the motives and arguments of respondents, receiving feedback and creating new ideas. A similar method is a small focus group discussion (4-5 participants in the group), which is often more effective, as everyone can express their opinion and young people are less stressful (Fokusa grupu ..., s.a.).

Eight small focus group discussions were conducted for the present research. The criteria of selection of focus group participants were as follows:

- place of residence – Latgale region;
- young people who do not study and do not work;
- aged of 15-24.

The total number of youngsters who participated in the focus group discussions amounted to 38. The key youth unemployment causes in Latgale region were identified after summarising the opinions expressed by the eight focus groups.

The focus group discussions revealed that young people most often terminated their labour relationship already during their trial period. Youngsters were often dismissed because the employees who had been doing the job before restored their labour relationship as well as because

the youngsters were late for their job due to long working hours. Therefore, to reduce youth unemployment in Latgale region, it is important to stimulate flexible employment by offering part-time jobs, seasonal jobs, work at home, etc.

The discussions revealed that there had been instances where enterprises where youngsters worked were liquidated as well as employers did not pay high enough wages and therefore the young people were forced to leave their job. The discussions showed that young people have large ambitions and they wish a high wage and are highly selective regarding their job. Sometimes youngsters were easily involved in various employer manipulations, for instance, they were given a job for a trial period and then no wage was paid and they were discharged. Also, sometimes no labour contract was concluded and the contract was incorrect. It would be important to explain youngsters at school (in senior grades) what a labour contract is and what a role it plays in labour relationships.

With youth unemployment increasing in Latgale region, the number of recipients of unemployment benefits is also rising and therefore extra funding from the government budget is necessary. High unemployment, especially among young people, can cause various risks – unrest, apathy and despair – the disappointed society contributes to it owing to the lack of job opportunities.

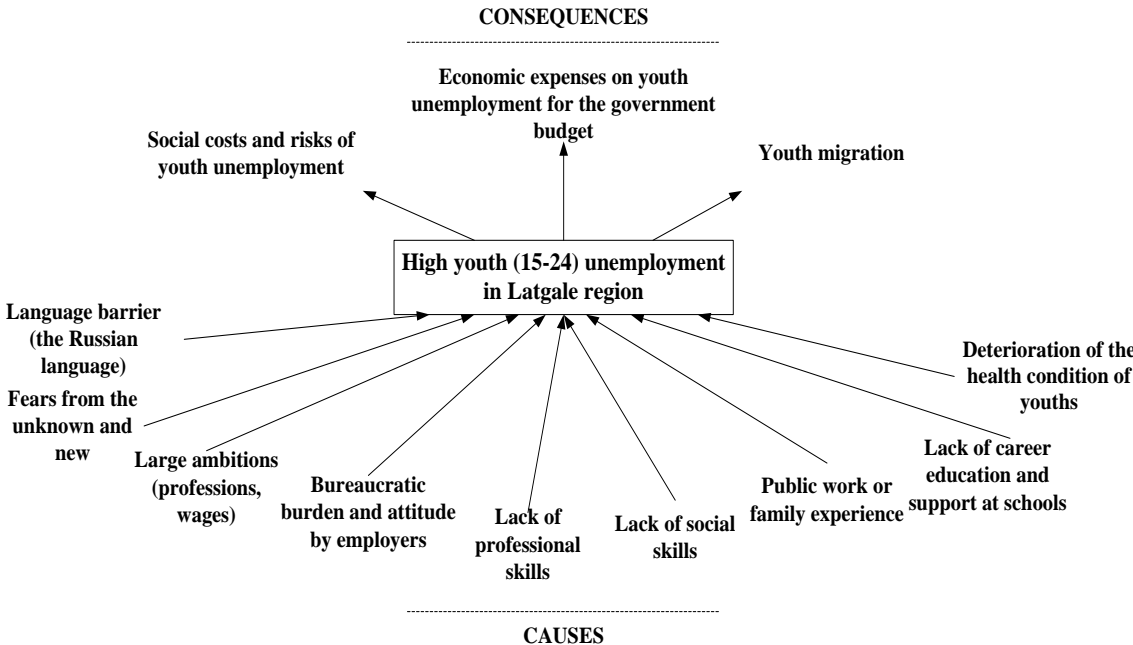


Fig.6 Scheme for the cause-consequence relationship for youth unemployment in Latgale
(Source: author’s construction)

The increasing youth migration (from Latgale region) caused significant loss of human capital. This loss often relates to the insufficient employment of young people and/or the insufficient use of their talents or skills.

During the course of the research, the key causes of youth unemployment in Latgale region were discovered (Figure 6): lack of professional skills, poor preparedness for the labour market, lack of foreign language skills (especially the Russian language) as well as lack of social competences (cooperation or work in a team, communication, skills to take responsibility and the lack of self-confidence). Youngsters lack public work or family experience as well.

Conclusions and proposals

The number of young people who are granted the status of unemployed because of the termination of their labour relationships is increasing fast. A positive trend is the fact that the number of young people who are granted the status of unemployed upon graduating from an education institution is decreasing. In recent years, the number of young people who were removed from the records of unemployment because they got a job, even though unsteadily, has a tendency to increase.

There is a medium strong correlation between the number of unemployed youngsters who get a job and their education level: $r=0.62$ for higher education; $r=0.59$ for professional education; $r=0.64$ for general education and $r=0.60$ for lower than basic education.

The number of young people who are unemployed for 3 and more years is decreasing; yet, over the last two years, the number of youths unemployed for 6-12 months has been constant.

The focus group discussions revealed that high unemployment among young people can cause various risks – unrest, apathy and despair – the disappointed society contributes to it owing to the lack of job opportunities. Latgale region may suffer from the loss of human resources, as young people migrate from this region owing to high unemployment (not only to foreign countries but also to cities and the capital city). The research hypothesis was proved and the focus group discussions revealed the key causes of youth unemployment in Latgale region: lack of professional skills, poor preparedness for the labour market, lack of foreign language skills, etc. Young people lack public work or family experience as well. The focus group discussions revealed that sometimes youngsters are easily involved in various employer manipulations, for instance, they are given a job for a trial period and then no wage is paid and they are dismissed. Also, sometimes no labour

contract is concluded or the contract is incorrect. It would be important to explain young people at school (in senior grades) what a labour contract is and what a role it plays in labour relationships.

To reduce youth unemployment in Latgale region, it is important to stimulate flexible employment by offering part-time jobs, seasonal jobs, work at home, etc.

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JAUNIEŠU BEZDARBS UN GALVENIE CĒĻOŅI LATGALES REĢIONĀ

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Kopsavilkums

Aktuāla Eiropas Savienības, t.sk. Latvijas reģionu problēma ir jauniešu bezdarbs. Pētījuma mērķis ir izpētīt jauniešu bezdarba tendences un cēloņus Latgales reģionā un sniegt priekšlikumus situācijas uzlabošanai.

Jauniešu bezdarbs ir aktuāla problēma, jo Latvijā 2014.gadā 13,1 % no bezdarbnieku kopskaita bija jaunieši bezdarbnieki, bet Latgalē 8,8 % jaunieši bezdarbnieki vecuma grupā 15 – 24 gadi.

Pētījuma novitāte ir precizēti zināmie un atklāti jauni jauniešu (15-24) bezdarba cēloņi Latgales reģionā. Latgalē jauniešu bezdarbam ir ļoti dažādi cēloņi, tādi kā profesionālo zināšanu trūkums, vispārējā jauniešu sagatavotība darba tirgum, valodu zināšanu trūkums (sevišķi krievu valoda), kā arī sociālo kompetenču trūkums (sadarbība jeb komandas darbs, komunikācija, atbildības uzņemšanās prasmes, un pārliecības trūkums).

Pētījuma mērķis ir izpētīt jauniešu bezdarba tendences un cēloņus Latgales reģionā.

Strauji pieaug to jauniešu skaits, kas iegūst bezdarbnieka statusu, kā darba attiecības pārtraukuši. Samazinās to jauniešu skaits, kas iegūst bezdarbnieka statusu pēc mācību iestādes absolvēšanas. Tādējādi Latgales reģions var ciest no cilvēkresursu zaudējumiem, jo augsta bezdarba dēļ jaunieši migrē no reģiona (ne tikai uz ārzemēm, bet arī uz lielpilsētām uz galvaspilsētu).

Lai īstenotu pētījumā izvirzītos uzdevumus, tika izmantotas vairākas pētījumu metodes: monogrāfiski aprakstošā metode, kā arī analīzes un sintēzes, grafiskā un statistiskā metode – korelācija, socioloģiskās metode – mazās fokusgrupu diskusijas (4-5 dalībnieki grupā). Pētījumā tika veiktas 8 mazās fokusgrupas diskusijas. Fokusgrupas diskusijās tika atklāti galvenie cēloņi jauniešu bezdarbam Latgales reģionā: jauniešu profesionālo zināšanu trūkums, jauniešu sagatavotība darba tirgum, valodu zināšanu, sabiedriskā darba vai ģimenes pieredzes trūkums u.c.

Atslēgas vārdi: jauniešu bezdarbs; cēloņi; nodarbinātība.



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