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**Branch Specifics of Culture Economics and
Creative Industries and their Development Trend**

GENTRIFICATION OR URBAN REHABILITATION? (THE CASE OF THE CITY OF KLAIPEDA)

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Abstract

Ecological sustainability, economic efficiency and cultural attractiveness of urban areas in the cities of the Baltic region – these are the issues to be examined in the research paper. Another goal is to scrutinize on how can different measures complement each other, while searching for the common goal – rehabilitation of the towns.

The theories of Manuel Castells (networking), Richard Florida (creativity) and Lees *et al* (gentrification) are used in the research as a basis, as well as the theory of the Triple Helix Model, where businesses, academic life and government find a dialogue when solving a question of the sustainability of a city. Another example of the “Impacts 08“ (a joint project of the University of Liverpool and Liverpool John Moores University, commissioned by Liverpool City Council) is taken into account.

The research provided as a case study of the paper is based on the outcomes of the educational project “Synaxis Baltica”, which celebrates its ninth year of continuous learning and complementing to the cultural policies of the Baltics. The town of Klaipeda, Lithuania, had hosted the project and was the subject for learning from the experiences of other cities.

Three case studies are discussed in the paper. The factual material on this (formerly German, and now – Lithuanian) town is as follows: the old-town was heavily bombed during the World War II in Klaipeda; the structure of the streets has been preserved as it was historically; and the largest concentration of cultural institutions and activities is observed in the old-town of Klaipeda. However, the town’s quality of life has been changing dramatically during the last years, e.g. the old town becomes increasingly emptier. Main problems that arise due to this are the following: a) big shopping malls are built next to the city centre; b) citizens are moving to live outside of the city; c) a short cultural season; and d) the time spent in the countryside/nature is a priority. City administration had prepared a special program of means dedicated to the revival of the old town; however, it was not approved by the City Council and was returned for further improvement. Special projects are being developed at the moment to make life of the old-town more vivid.

The solutions provided by the students of the “Synaxis Baltica” academy in 2010 are given as recommendations when serving as managerial tools to preserve/rehabilitate three key objects: The Market Square; The Old Drama Theatre Square, and the Industrial Artistic (Wood) Factory in Klaipeda. The objects that have undergone examination took the following streamlines or slogans: 1) the Old Market: Diversify; 2) the Old Theatre Square: Make it movable; and 3) the Industrial Artists Residence: Keep it as a home.

Conclusions. The Triple Helix approach, developed by Henry Etzkowitz and Loet Leydesdorff, based on the perspective of University as a leader of the relationship with Industry and Government, to generate new knowledge, innovation and economic development was ought to help here. The model was discussed among the students. However, none of the groups managed to include the university as a solid key player into the project. The example of the Liverpool culture capital as a successful example of this *marriage* of the three actors was discussed here, too. However, there is still room for consideration in the cities of the so called countries of transition economies.

Keywords: *urban development, culture, old town, the Baltics*

What is “Synaxis Baltica” and why gentrification in Klaipeda?

The oldest institution in the independent Lithuania, aimed at training future managers for culture, namely, the Unesco Chair for Culture Management and Culture Policy, together with Klaipeda Culture Communications centre have taken over the tradition of the “Synaxis Baltica”, the network for students in the field of arts and arts management. The network consists currently of nine universities and partner institutions. They are all located in the countries surrounding the Baltic Sea. Thus, questions of the European culture management focus on a regional aspect there. The year’s 2010 topic was “Artistic gentrification of the old town”, and the dates for the project were August 2–15, bringing the members of the project to the shores of the Baltic sea, to the ice-free port of Klaipeda. The important role in the project was played by several graduates of the the UNESCO Chair for Culture Management and Culture Policy, and the organizers dared joining the efforts of the network regardless the infamous financial crisis. The main headquarters of the project were located at Klaipėda Culture Communication Center.

“The mission of Klaipėda Culture Communication Centre is to present the points at issue, tendencies, and process of creation of art to the society with the help of contemporary art forms and means. To develop and induce the relationship between the artist and the recipient of his art work with the help of up-to-date information methods and artistic forms, help the artists of the city integrating into the national and

international context, reduce social exclusion between the creators of different art regions and the end-users of culture.” (Available from:

<http://www.kulturpolis.lt/en/main.php/id/107/lang/2>) [Accessed 15/04/2011]

The theme for *Synaxis Baltica 2010* was connected to the buildings of the old town of Klaipeda and their revival (gentrification). Over the recent years due to difficulties in business, the number of empty business premises of Klaipeda has been growing, which affects the overall image of the downtown. The experience of various cities (Chicago, London, Munich, Berlin, etc.) proves that creative initiatives help to revive abandoned places, creating the added value to those buildings, and especially serve the people who become more socially active in the area. Thus, our focus of the year 2010 was to make the old town of Klaipeda livelier, and bring together the town’s business and artistic community for common goals. The future cultural managers from the network countries, together with a couple of students of design were committed to: a) building up a cooperation platform with business community in order to b) design preselected buildings in the old town of Klaipeda and c) make them visible and attractive to visitors, as well as d) finding new functions of the buildings in the old town. Mainly, the idea was to “dress up” the old town of Klaipeda in new, business friendly “clothes” so that the town could better define its identity and the roots.

“Lithuania has re-established anew the port of Klaipeda. The fact that Klaipeda is like day and night different from today’s Kaliningrad region speaks a lot about the strength and energy that Lithuania had invested in Klaipeda. Klaipeda had not had the tradition that should be preserved and extended. All Klaipeda’s tradition have been rather recently invented and dictated by modern historical and cultural imagination. This is a city that is modern since its second birth, although it has its origins and mythology, legends and historical narratives. At the same time, it is a city where modern architecture is perfectly intertwined with a sensitive commitment and narration about the physically vanished manifestations. As if it is an old man playing a youngster; or a young city, calling itself the old city and celebrating its noble anniversary. Klaipeda is a question town. In this city there are no signs of the identity or the content of the identity – need for the identity of Klaipeda requires to discover, create and intensively experience it. To say that Klaipeda is special because of its near location to the sea equals saying nothing. There are many other cities by the sea; then in what ways Klaipeda is different from, say, Riga, Tallinn, Stockholm or Helsinki? The difference rests in the fact that the population of typical marine towns has been attached to the sea for generations and centuries, and Klaipeda has not. (Donskis, 2004, Available from: <http://www.klaipeda.daily.lt>) [Accessed 15/04/2011]

We have quoted above a famous professor who was born and raised by the city of Klaipeda.

And here goes another witness:

“Another example, encountered in Klaipeda, was when a local professor had confessed that over the past 15 years he was by the sea perhaps two times. Both times,

by the way, it was done on somebody else's initiative. His reluctance could be explained by the additional difficulties associated with the remoteness of the waterfront of Klaipeda. Promenade by the sea for a long period of time required and still requires special efforts: preparation, journey, overcoming obstacles, and hence, the problem of expedience. Reaching the sea is not the same as just going to the park for a walk or exercising in the morning. The seashore or the coastline has not become part of everyday life or part of the walk. Fences, special procedures and modes, which is still partly observance of the Soviet tradition, turn the city quays not into a part of everyday life of the citizens but into the rather unique product. The famous everyday consumer revolution which triggered the population of the West in the last century (late seventies) in Lithuania has not yet been conceptualized. Thus, we can see the need to link the creative industries, acculturation of aquatic territories, urbanization and everyday reforms or even everyday revolution", shared his views on the identity of the town professor Gintautas Mazeikis in 2004, during the first international conference "Ice-free culture" (source: the archives of Klaipeda Culture Communication Centre) [Accessed 15/04/2011].

The relevance of some theories regarding urban development

Gentrification happened from ancient times. The word *gentrification* derives from *gentry*, which marked the second social class below the nobility. In 1964 the British sociologist Ruth Glass coined the term "gentrification" to define the influx of middle-class people to cities and neighborhoods, displacing the lower-class worker residents.

According to John Betancur (Betancur, 2005:9), the gentrification process includes a few major stakeholders and a number of other players "siding with one or the other or trying to sail through or take advantage of the situation. "First, Betancur says, as cities in a market economy compete for economic development, local governments become a dominant force behind gentrification in their pursuit of growth and a strong tax base. Second, the private market is said to play a fundamental role in the gentrification process, as it seeks to maximize profit through real estate transactions. Thirdly, residents play an integral role in shaping a community's future, Betancur believes.

Another notion that has been crucial while examining the issues of urban development of the city of Klaipeda is writings by Manuel Castells, especially, his theory of the networked society. However, Castells suggests that the issue today is "not how to reach the network society as a self-proclaimed superior stage of human development. The issue is to recognize the contours of our new historical terrain, meaning the world we live in"(Castells 2005:5). Castells speaks here on how to "identify the means by which specific societies in specific contexts can pursue their goals and realize their values" (Castells, Cardoso 2005:5).

Castells in his interview dedicated to the network society and organizational change (Harry Kreisler interviews Manuel Castells) shares his following views: “The network society itself is, in fact, the social structure which is characteristic of what people had been calling for years the information society or post-industrial society. Both "post-industrial society" and "information society" are descriptive terms that do not provide the substance, that are not analytical enough. So it's not a matter of changing words; it's providing substance. And the definition, if you wish, in concrete terms of a network society is a society where the key social structures and activities are organized around electronically processed information networks. So it's not just about networks or social networks, because social networks have been very old forms of social organization. It's about social networks which process and manage information and are using micro-electronic based technologies.”

(Available at <http://globetrotter.berkeley.edu/people/Castells/castells-con4.html>)

[Accessed 15/04/2011].

Richard Florida, an ideologist of creativity, claims that “place is the key economic and social organizing unit of our time”. He is sure that places “provide the ecosystems that harness human creativity and turn it into economic value” (Florida 2002: xix).

Finally, the Triple Helix approach, developed by Etzkowitz and Leydesdorff, can be applied in the context of the city of Klaipeda as it is based on the perspective of University as a leader of the relationship with Industry and Government, to generate new knowledge, innovation and economic development. The authors suggest that “since the late 1980's the interface between academia and industry has been increasingly identified as a factor of economic growth, a source of new products and companies, on the one hand, and of flows of knowledge to existing firms, on the other” (Etzkowitz, Leydesdorff 1998:1).

(Available at <http://www.leydesdorff.net/min98/>) [Accessed 15/04/2011].

As a fruitful *marriage* of universities and businesses, as well as urban planners, one more example – a project “Impacts 08” – should be discussed here.

“Impacts 08” is a joint research initiative of the University of Liverpool and Liverpool John Moores University, which has been evaluating the social, cultural, economic and environmental effects of Liverpool’s hosting the European Capital of Culture in 2008.

Beatriz Garcia, one of the authors of the culture capitals “evaluation model” (Garcia 2009) recalls that the discussions regarding possible cooperation among universities and the city started in 2004, one year after Liverpool had got the award to become a capital of culture. It was supported by an agency called “cultural observatory”, analogue of which is in Budapest, and several other parts of Europe; it is basically a think-tank that tries to establish communication between policy makers, researchers and practitioners within the arts sector.

“This agency was in touch with the local authorities, the Liverpool city council and decided to engage in the research and get a holistic model into that. But most consultancies didn’t really present the holistic programme – they were relying on the established statistics and methods, while the university decided to really go for a more advanced approach of interrogation about it”, Garcia says.

“The University of Liverpool didn’t have an expertise on cultural policy, and that is how they got in touch with me to provide some advice on their proposals. And when they got the funding, they decided to appoint me as a director of the programme. So my role then was actually to identify the connection within the university, the economists, anthropologists, sociologists that were experts in the field but had no done work on culture and the arts, and encourage them to come and talk to each other and help us define methodologies that were relevant to the cultural sector.” (Garcia 2009)

“I was based in Glasgow, within the culture policy research centre, and when the University of Liverpool signed the contract with the local authorities for a five-year program, they needed to appoint a team. So I moved to the University of Liverpool and got a position of the director of research. My role among other functions was to keep communicating with the local authorities, with the business community and the arts sector to retain their trust so that they didn’t feel that academics were locked in the ivory towers doing the “*big theory*” without getting a language that was clearly understood by them, so my role was to coordinate, to champion the research and to identify the “cracks” – the areas that had made it difficult in the past for the university to be involved in cultural policy research” (Garcia 2009).

As a result, the city of Liverpool benefitted in the following areas: 1. Cultural access and participation; 2. Economy and tourism; 3. Cultural vibrancy and sustainability; 4. Image and perceptions; 5. Governance and delivery process.

What is more, the city originated the *scientific model* of the culture capital assessment. The model allowed assessing some important points related to culture in city revival. In 2009, survey respondents were asked what they felt was the “best thing” about Liverpool culture capital. Among the most popular responses there were: 1. Regeneration; 2. Image change; 3. Increased numbers of tourists visiting Liverpool; 4. The events programme; 5. Positive impacts on civic pride and community cohesion; 6. Shopping.

(Available online at:

http://www.liv.ac.uk/impacts08/Publications/Neighbourhood_Impacts.pdf).

When analyzing the ways of how to merge the efforts of various stakeholders, and what aspects make our cities creative, culture analyst Lidia Varbanova mentions the following:

- Heritage and collective memory;
- Meeting spaces and public art;
- “Talented cities”;
- Culture as an economic engine;

- Cultural tourism;
- Cultural citizenship;
- Community development;
- Personal and social development of youth;
- Creative and leadership capacity of the mayor.

(Varbanova 2007: 9).

Let us examine the issue of collective memory. Professor Milena Dragicevic Šešić, in her volume “Culture as a Resource of City Development”, discussing the ways of revitalization of the cities, provides infamous examples of the cities where the heritage of the former years is neglected: “as the history of Koenigsberg-Kaliningrad shows, erasing the traces of history is always disastrous for the city. Like denying the presence of German culture since 1945, it would be the same to deny the traces and achievements of Soviet culture in its former territory today. But – what should the new identity of such a city be?” (Dragicevic Šešić 2007: 42)

Concerning Klaipeda, efforts to remember the “German” past seemed to be a mission “impossible”. What else could “save” the face of Klaipeda?

According to Milena Dragicevic Šešić, it can be stated that the main types or profiles of the city identity might be:

- capital city (presence of national institutions, media, foreign representatives);
- administrative (regional) centers (according to the decentralization structure);
- university city (traditional: Krakow, Vilnius, or new one: Orleans, Novosibirsk);
- commercial city (Hanseatic cities like Hamburg, or fair/trade cities like Frankfurt);
- crossroad city (important for traffic of goods and passengers);
- industrial city (around a certain type of industrial production: Turin, Leeds);
- postindustrial city (industry in crisis – new service development: Gdansk);
- mining city (Roubaix, Labin, Majdanpek);
- tourist city (spa, holiday resort: Vrnjacka banja);
- sport resort city (Innsbruck);
- historical city (symbolically important as ex-capital etc.);
- cultural capital (national, outside of the capital) – art city (Krakow);
- sacral city (Lourdes, Santiago da Compostela, Echmiadzin);
- frontier/border city (Dimitrovgrad);
- multicultural city (the main “identity mark” is its multiculturalism: Leicester, Marseille);
- post-multicultural city – divided city (Mostar, Mitrovica);
- military city – with military port, caserns, etc. (Toulon);
- secret city (in Soviet Union, city of secret nuclear or military production).

(Dragicevic Šešić 2007: 43)

According to the same author, there are at least six phases in the policy planning process, which, if neglected, make the use of culture in the process of urban regeneration or re-branding ineffective. In *the first phase*, Dragicevic Šešić says, the most important issue is to raise public awareness about the necessity of the new concept of cultural policy and strategic planning. The main task of *the second phase* should be to diagnose the cultural situation within the municipality through empirical and desk research (information gathering), analysis of data and creation of development indicators, identification of the problems and potentials and final diagnosis of the situation. In *the third phase*, the city authorities should come up with a policy paper – developmental chart – developed through public debate, consultation, but also through joint identification of needs and challenges. The final stage of this phase should be the adoption of the policy paper by the City Council, Dragicevic Šešić thinks. *The fourth phase* is elaboration of the strategic plan. In *the fifth phase*, monitoring of implementation should be established. *The sixth phase* – evaluation of the first strategic period – is the beginning of the new planning cycle. The process is in fact starting all over again (Dragicevic Šešić 2007: 47).

The case studies: Synaxis projects 2010

1. The Old Market project or The Diversified Market of the Future

(Created by Anna Kirsanova – Finland, Liis Kalvik – Estonia, Liene Berina – Latvia, and Yvonne Kuepper – Germany). They chose their slogan in the words, promoted in advertising magazines: “The classic Lithuanian market experience, this predominantly outdoor affair is the place to come for exotic Chinese underpants, ill-fitting sweaters and towards the back: meat, fruit, vegetables, flowers and plants” (www.inyourpocket.com).

The mission of the project sounded the following: to increase and develop certain functions of the market: commercial, socializing, information and educational and entertaining function.

The vision of the Old Market project meant to make the venue “the central trading place for ecological products, recognized among the local people and tourists; a platform for meeting and socializing and an attractive center belonging to the Old Town.” Local inhabitants and tourists were chosen as project’s target group (German 35,8%; Spanish 8,2%; Polish 4%; French; Latvian; Russian; English; Italian; Dutch; American (source: survey by the Klaipeda tourism and culture information center, 2009). Potential target group: young customers, trend-setters. The methods applied in students’ research were: site visiting; identifying problems; interviews (market administrator, customers, and traders); comparative analysis of market infrastructure, traditions; visiting of the tourism information center; macro and micro – analyses.

Proposals of the Old Market group were designed to play:

- Commercial function: wider selection of handicraft products, souvenirs; decreased number of licenses issued for trading in the “sleeping” districts; increased security in the area of the market; decreased number of traders without license; selected product range; unified packaging and labeling.
- Information function: information signs inside of the market, map of the market (in different languages); information distribution – tourist web-pages, booklets; advertising and PR campaigns; main entrance signposts; exhibition wall for mobile exhibitions; stands for presenting the history of the market.
- Educational and entertaining function: German Cultural Day in May – collaboration with Goethe Institute; German and Austrian embassies – food festival in the market area; monthly selected item flea market – modifiable theme; monthly night market – concert programme; collaboration with the Theatre square ; food festivals (Fish festival during the Sea festival, Regatta, City birthday – advertised in the programme of the festival; Mushroom festival in the autumn; Christmas market before Christmas).
- Socializing function: Klaipeda – the city of benches; interactive cooperation project between artists and the community; cooperation with art students – potential exhibition place for students; cooperation with architect students – outdoor furniture solutions for the market seasonal meeting of the traders with the market administration; café.

Long term revolutionary goals were stated as follows: ice-skating rink during the winter; a central fountain as meeting place; new pavilions around the vegetable market; underground parking.

2. The Theatre Square project or *I love theatre*

(Created by Edita Smindriūnaitė – Lithuania, Agnieszka Unzeitig – Poland, and Magdalene Loda – Germany)

The mission was identified as aiming at: creating a living, inviting, socially friendly, culturally active place which employs new IT technologies to promote culture in Klaipeda.

The vision was meant to make Klaipeda’s Theatre Square and Drama Theatre the most important, popular, modern and technologically advanced cultural public space in Lithuania. Klaipeda’s inhabitants: kids, youngsters, workers, retired, tourists were identified as the target group of the proposal.

Main proposals included: installation of full screen & digital cinema technology (efficient use of Theatre Square venue for an open suitable place for open air cinema;

reviews of theatre plays records, films in an open air cinema and other events (e.g. German film festival, lectures, radio plays, operas from other cities for example Vienna, football games); video advertising agencies cooperation between cultural and business sectors; cooperations with Simon Dach house and Goethe Institute).

Other ideas embraced: interactive information desk providing historical and cultural information of Klaipėda (for example: Simon Dach); modifiable usage of the Theatre building exterior for exhibitions; variety of life events for the Theatre Square venue (Street Theatre Festival; living sculptures; Christmas market); rearrangement of the Theatre square (more benches and seats; transpose the trading desks).

3. The Wood Factory project or “Why not?”

(Created by Madara Daudze – Latvia, Aiste Laurinaviciute – Lithuania, and Magdalena Kraszpulska – Poland)

The mission was formulated as follows: to gentrify industrial area by syncretism of art, business and ecology with the support of politicians and academics.

The vision was declared as a multifaceted city with a young, new, creative generation of inhabitants.

Target groups included: artists; business sector; youth (students, young families) and local and international tourists.

Short-term goals were meant to: raise the recognition of the place as artistic area (Wood factory); develop management of artistic activities in the Wood factory; introduce art as a socializing tool, e.g., a tool to support and enhance active community.

Short-term strategy planned to: hire a manager or involve management students; stimulate guerrilla marketing strategy; enhance visibility of the place from the street (murals); organize regular events (workshops, festivals, parties etc.) for different social groups.

Long-term activities aimed at: keeping the Wood factory building for the artists; developing *arteco* business; making Klaipėda internationally recognized for synergy of business, art and ecology principles.

Long-term strategy planned to: develop the area as a special shopping center with eco shops and products in offer, and artistic activities for customers led by the artists from the nearby community; provide green areas employing the river and forest surroundings; invest into living places in the neighborhood (including apartments for *art residences*).

Conclusions

The topic of gentrification proved to be an absolutely relevant tool to train future culture managers to strategically plan the urban life. However, the strategy that was required in Klaipeda to undertake *in situ* was city rehabilitation rather than anything else. All the three groups demonstrated good skills of communicating local inhabitants and learning the cultural issues or analysing macro- and micro-environment, therefore; they realized the need of the city's revival.

The students provided many interesting reflections upon the creativity encouragement or image awareness of the town. They were sensitive in acquiring knowledge about collective memories, public spaces and public art; "talented city"; culture as an economic engine; cultural tourism; or personal and social development of youth.

The areas where students demonstrated weaker abilities included: need for community development; understanding of cultural citizenship; lobbying and ability to negotiate with other stakeholders.

The main drawback that made students feel most confused was the Triple Helix approach, the model that was discussed earlier. Unfortunately, none of the groups managed to include the university (which does exist in Klaipeda) as a solid key player into the project. The example of Liverpool culture capital serves as a promising pattern of teaching future generations of culture managers.

Concerning the use of the definition "gentrification", the project proved that in the case of Klaipeda, rehabilitation would be more appropriate, as it corresponded to the actual context of the city planners.

To conclude, it is noteworthy considering academic institutions as important players in future urban rehabilitation.

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CULTURE AS AN IMPORTANT PART OF CITY IMAGE

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Abstract

Countries and cities have always competed for power, prestige and fame. To show off and gain influence palaces were constructed, parks created, art works ordered and cities decorated. Nowadays it is called the image creation. The nature of competition is not only economic, but also cultural, while its objectives are bigger inward investments, attraction of tourists and increase in exports volume.

We can talk about creating city image in Latvia as a consciously managed process only since late 90-ies; therefore it is still in its initial development stage. However, there are some cities which have managed to create their image and be recognized because of their visible achievements in the field of culture. These are Ventspils, Kuldīga, Cēsis, Liepāja, Sigulda, Rīga and some others.

Image created by each city anew differs a lot from the previous one. In most cases cities try to create different images themselves, determining the directions of development to become distinguished and well-known. This process requires involvement of many various organizations both official (local municipalities) and private (cultural and tourism enterprises, etc.). The effect can be gained in case it is based on the city possibilities and desires. In Latvia, as well as in other places of Europe city can be looked upon as a region within a wider context.

Armin Klein explains that presently regional (urban) cultural policy is a new branch of cultural policy. Regional cultural policy means both development of specific regional self-confidence and increased regional cultural activity and cooperation with other regions. Nowadays regions are looked upon as territories for several branches, including the cultural space. Various possibilities can be found there, e.g. region with common history, traditions, language and dialect that influences mentality and lifestyle, cultural activities and creative personalities.

Key words: *city image, region, culture and cultural policy.*

Introduction

Countries and cities have always competed for power, prestige and fame. To show off and gain influence palaces were constructed, parks created, art works ordered and cities decorated. Nowadays it is called the image creation. The nature of competition is not only economic, but also cultural, while its objectives are bigger inward investments, attraction of tourists and increase in exports volume.

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Armin Klein explains that presently regional (urban) cultural policy is a new branch of cultural policy. Regional cultural policy means both development of specific regional self-confidence and increased regional cultural activity and cooperation with other regions. (Olivera 2009: 111) Nowadays the regions are looked upon as territories for several branches, including the cultural space. Various possibilities can be found there, e.g. region with common history, traditions, language and dialect that influences mentality and lifestyle, cultural activities and creative personalities. (Olivera 2009: 112)

Cities should try to find common grounds for cooperation with regions in cultural field. This cooperation can take various forms:

- Municipalities can jointly organize annual cultural events, e.g. regional cultural days;
- They can unite for a longer period with the aim to create permanent cultural cooperation with some metropolis;
- Cities can freely join their forces for organizing particular cultural events.

This kind of culturally political cooperation between cities and regions brings such positive things as attraction of resources and creation of the city image, as well as arguments for fostering economic development and strengthening identity. (Olivera 2009: 113) The purpose of the present paper is to disclose importance of marketing for marketing the cities, in general, and for marketing the cities in Latvia, in particular. The object of the present paper is the image of the city within the changing contemporary world. The

methods employed are following – the studies of theoretical literature, the document studies and the situation analysis.

City Image and Identity

City image and identity are elements that help to create city image. It is possible to create a city image without determining the contents for the city identity on a strategic level. (Staniulescu 2009: 121)

City identity shows the way the city wants to be perceived. It is unique relationship between the components. City image is the sum of characteristics making it different from other cities. Identity is the result of the activities planned in the city's marketing programme. City identity results from the interaction of the elements of the city system and is perceived as the only one.

There are three levels of identity:

- Place personality;
- Place identity;
- Place image.

Differences between these three levels show the possibilities for improving relationship and renewing the city's life-cycle. The attraction factors chosen by the planning group for creating the desired image are communicated to the target groups. The attraction factors can be classified as the hard and soft ones. As concerns the hard attraction factors, the infrastructure alone cannot create a unique competitive advantage, and a combination of these factors has to be applied, since the efficiency of some factors cannot be used to a full extent. The soft attraction factors – knowledge, entrepreneurial spirit – become more and more important for creating city product, as they almost cannot be imitated by the competing cities. The physical city elements (culture) alone cannot create the city identity message, and it means the associations with immaterial elements such as image are needed. Physical elements are not able to create image. However, it is easier to concentrate on the physical elements, and there are cities that concentrate their efforts on culture and cityscape.

Each city has to determine its development direction, basing on its specificity. The country cannot impose its point of view; it has to support city's desire for activities. Initially it can be a city development plan; however the main thing is to cooperate with the city municipality by determining the areas of activities and understanding the city's wishes. Cities choose themselves in which projects to participate, which projects to support, and how to cooperate internationally.

City municipalities can better and easier develop particular cultural directions, as they better know their territory and people living there, including creative personalities.

The academic and management literature on place marketing identifies various means of influence for non-profit marketing:

- planning the most appropriate mix of territorial products and services;
- creating stimuli for the users of these products;
- improving accessibility of the territorial products/services;
- promoting/advertising city image and values to ensure that the potential users recognize their advantages. (Valdani, Ankarani 2001: 8)

City needs not only an image, but also a sub-image for each market or business area it is involved. Each image needs its own strategy. Marketing communications of any form – direct marketing, exhibitions – can be used for city marketing as a link between the city identity and city image. Cooperation of municipalities and support for creative personalities will become a competitive element that can be used for the city image. The organization supporting the city image should communicate a clear message for consumers on municipal support for the cultural activities, as the city promotes preserves and supports cultural life.

Research has indicated for several times that the city image is a selective issue in people's perception and it influences their spatial activity: people evidently decide where to live, work or entertain themselves basing not only on objective qualities of the city, but also on the image aroused by this place. Information people have about the particular city is the sum of their previous visits or stay, articles in media and stories told by other persons. It is not important what people think or know about the particular city, their city image remains limited and colourful. To tell it in other words, the spatial images have big importance in the choice of a city for living, entertaining, etc. Therefore state institutions, as well as entrepreneurs, cannot avoid selling their region in one or another way. (Hospers 2004: 273)

City image represents the sum of beliefs, ideas and impressions people have on it. Images are numerous simplifications of mental associations and information created together with the place. Images differ from stereotypes – they are widespread, very distorted and simple images that create favourable or unfavourable attitude towards the city. Image is a kind of individual understanding; therefore images in minds of various persons differ. Each city has its own direction in the field of culture according to which the interested people recognize it: architecture, art, theatre, sports, etc.

However, city marketing has to find balance between the identity, image and desired reputation. In case these elements are fitting, the city image is the most relevant integrator of various pillars (for example, economy, infrastructure, education and culture) and forums (residents, businesspeople and municipalities) for creating recognizability of the city. Therefore it requires from the desired city image to be real. The chosen image should fit in with the identity of the relevant area. (Hospers 2004: 274–275) In this case attraction of creative personalities could be useful for making the image recognizable, as creative and outstanding personalities make city alive. The

main thing for the city municipality is to gain trust of these creative personalities to develop collaboration.

City marketing can be a strong strategy that supplements endeavours of the municipality to foster physical attractiveness of the place. In ideal case the image through which the city communicates should be the shortest translation of particular things the city is proud of or wants to be its symbols. Ideally the city marketing erases the difference between the real city (“identity”), its perception in the minds of strangers (“image”) and the way the city wants to be perceived by the outside world (its “image” or desired reputation). To eliminate this imperfection, it is necessary to communicate and foster the city attractiveness and its competitive advantage. (Hospers 2004: 274)

Managers of city marketing can only hope that the real image will be created as desired and will communicate the city identity. City image is the result of long-term complex of activities that creates the unique characteristics of the city. Therefore image cannot be copied as easily as any other activities of operational marketing mix. The city image shows the result of regular marketing communication process. Image simplifies and organizes the city “buying” process by diminishing the risk related to decisions. After analyzing the current image, the city image “product” is created in the mind of a buyer; it can be retained or changed. The strategic management of the image analyzes the determining elements of the image control and projects the image among the target groups. The image should be useful, simple, differing, reliable and inspiring. (Staniulescu 2009: 123).

Public Relations and Cultural Life

Also public relations have a big importance for improving the city image. Their basic task is to advance and develop the image in a direct way. In case this helps to guard and manage the reputation and relationship, not only a factor of comfort will be achieved, but also real and logical success in the life of the city, and reputation of the city will be improved. The task is to gain favorability of the society. In case the city has good reputation, the people will:

- be willing to participate in the public life;
- trust the city;
- visit various events more often.

Creating good reputation and maintaining it among the society elite is a scrupulous, time- and energy-consuming work. (Gregorija 2007: 12)

Recognizability of the cultural life is influenced by broader public relations that form the global view of the public relations function, therefore it may be said that it leaves impact on the organization’s choice of the public relations model.

Although such a model determines many variables needed for communication management and control, it also shows that, in case the culture in its essence is hierarchic, authoritarian and with a feedback, the dominating coalition usually chooses the asymmetric public relations model. (Olivera 2009: 26)

Communication plays a great role. It fosters achievement of the further strategic aims of organizations, as it tries to gain the support of various groups or public elite by ensuring clear and precise summary of manager's and organization's vision and values. Communication in its essence is not only transmission of information about the organization's vision; its aim is to gain active involvement or at least support for these aims (depending on society). The task of communication is to influence behaviour. It is important to achieve the state when society is not only interested in the cultural activities taking place in the city, in famous and outstanding personalities of its city, but also would actively participate in all activities of cultural life.

Communication positively influences relationship with society. These people after all are responsible for the city's destiny. Good communication improves the possibilities offered by the city by identifying them in due time, as well as by fostering events that help to gain benefit from it. (Gregorija 2007: 18–19)

Culture and communication are closely linked and influence each other. In case the city culture is strong, also the communication culture is such. In case the city culture changes, also the public relations have to change. Consequently the communication culture is that which is perceived in communication as desirable and necessary for action. (Herbst 2006: 80–81)

City Image and Public Relations

City can be characterized as one of cultural phenomena that do not seem problematic on the level of the daily awareness due to their self-evidence; however, on the level of notional definition or reflection they turn into unsolvable riddles. The paradoxical composition of simultaneous simplicity and notional complexity in the "city" is created mainly by possibility of different levels of its perception and points of view on it and often by simultaneity of differing kinds of perception, even their overlapping in the mind reflecting upon the city, as a separate "clear" variant of city interpretation can be in fact obtained only as a result of abstraction. Thus in many cities; or to be more precise, within the variety of the city people live each in their own world of ideas.

The most simple and accessible for all vision about the city is linked to daily existence, living and acting in urban environment; or to be more precise, within a fragment of a city with its composition of particular things and objects and certain and usual order of their use. This is a vision adapted to daily life.

The daily life stereotype provides that the repetition makes to learn and use the objects and things or signs in this environment as usual – relatively the same and repeated, so that nor the eyes, nor hands, neither mind would be cheated: regular repetition and similarity in actions create also similarity in perception and make it easier.

The everyday surroundings of those living in the city not only display themselves, but also indicate something coming from outside, for example, how behaviour, speech and even thinking style can be changed inconspicuously, without sharp display of gestures, mimics, words, in constantly changing and new differently organized premises created for particular purposes and functioning according to them. Due to its self-evidence and fact that city every day is perceived anew and used both by all residents and visitors, the everyday space of the city organizes itself almost automatically.

Another level of perception, that one trying to perceive the city on the whole, yet joining the wholeness with the fragmentary view, develops by making the city or city phenomenon thematic according to some kind of scientific object image; for example, the city can turn into an architectural, or historical, or urban planning object, etc. By dedicating all attention to as precise and detailed survey of the object as possible, separate sciences abandon as useless everything which is characteristic for the city, but which is not fitting within the possibilities provided by the scientific methods or instruments.

Therefore this approach robs the city phenomenon of a complex and systematic view; besides, for the perception and survey of any separate scientific object (that could be also a city) special knowledge and skills are needed: scientific terminology, as well as the complex of its instruments and methods should be known. Thus the object of the scientific research is subject to a particular code, and in case it is not learned, the object is not accessible.

Each city element depends on the others; no one of them – neither houses, nor streets and their names, and not even the emptiness or something else – has importance within this structure *per se*, they gain importance only by their interrelationship: a house is such only as related to the street, streets are such only as related to the houses marking their borders and the directions of movement determined in the city, etc. Each change changes city on the whole, or in other words, the system of city significations is a historically changing variable and its development directions and trends can be followed and abstracted. (Teters 2004: 91–95)

Creation of the city image takes place consciously, spontaneously and unconsciously. Each city needs recognizability and it should be known to reach its aims in developing the city image. The solutions can be found in cultural field; municipalities can support art and culture, foster cultural development planning with the help of strategic culture management. The main purpose of cultural development is to reveal and describe the cultural offer potential in a city or region by showing its development and use perspectives in long term. (Olivera 2009: 185)

Presently the city image and development in Latvia to a great extent is influenced, if not created, by the development of culture and art. Culture builds appropriate preconditions and stimuli for the development of urban cultural environment, thus creating also city image and recognizability, as well as develops ideas about the future models of life desired by the society.

Conclusions

- 1) Competition among cities grows; it determines the necessity for each city to find its own way for attracting attention and creating city image.
- 2) City image can be created in different ways, but culture is one of important elements of the city image.
- 3) Each city has to determine its direction of development, basing on specificity of the particular city, including that within the field of culture.
- 4) City needs not only a particular image, but also a sub-image for each market or business area it wants to attract.
- 5) Recognizability of cultural life activities can be used successfully for creating the city images.
- 6) The main aim of planning the cultural development is to reveal and describe the cultural offer potential in a city or region by showing its development and use possibilities in long term.

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RECREATION RESOURCES FACING PROBLEMS IN LATVIAN AND EUROPEAN UNION CULTURE

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Abstract

The current situation in the field of recreation in Latvia is characterized by systemic and lack of control. The investigation is concerned to an issue due to the recreation and tourism growth in recent years in Latvia, and the lack of scientific research in tourism and recreation industry, especially in the urban regional – spatial development. The main problems which are determined by the study up to date:

- general lack of access to recreation and tourism industry architecturally-spatial planning in Latvia;
- not adequately identify and assess the Latvian cultural and natural resource recreation and tourism has not been a single territorial functional zoning of tourism-related sectors. The research results will strategically monitor tourism and recreation sector in Latvia as a whole and clearly outline the future development, also will define priorities;
- 51,9% of territory in Latvia is covered by forests, unfortunately, not all urban and rural residents visit them. Latvian lack impersonation link between culture and forests (Software: Meza experts)

Keywords: *recreation, resources, forest, policy, landscape*

Introduction

Forests – the Latvian Gold. Recreation spaces and areas are man-made and natural resources for recreation – a person's physical and mental state of renewal, providing sports facilities, hotels, nursing homes, sanatoria and similar constructions. (Latvian Tourism 2007:68)

In the present work the research object is Ozolnieku County and city of Jelgava forest massif. Jelgava is rich with plains, forests and nature reserves.

There is an evidence that urban residents often suffer from respiratory illnesses than rural character of the population, which the environmental quality level is higher.

The city also required the development of the scenically landscaped recreation areas where people can spend their leisure time by offering recreational areas resources. Finding a synthesis of forest and urban areas, it is possible to solve both the problems of environmental quality and the human health. Similarly, well-organized forest landscape attracts tourists, making contribution to the Latvian and European Forest Economics and Policy.

It is difficult to compare in terms of quality the Latvian and the European forest landscape and the recreational level. The European countries, such as Spain, Greece, Turkey and Germany have advanced to the leaders of the world. In these countries, the recreation acts as a systematic process for recreation and confers economic and ecological functions, but they have lost the aesthetic one. The recreation is very often associated with other qualities of the urban environment and it is part of the human life. Latvia therefore lacks the systematic approach in the recreation and tourism complex spatial planning, in most studies by the recreation and tourism sub-sectors rhythmically structured analysis of global trends is not carried out.

The Research has to respond to the suburban areas of the forest to group an array of three recreational facilities.

The first space is the RAF high-rise residential areas surrounded by forests, which will carry out research, so that the area is being set as an elitist-type recreation area Mezaparka Zemgale region.

The second space is a massive forest Ozolnieku Klijenu road with dense mansion building, while the third is Ozolnieku ski run to the adjacent forest and an array of open farmland.

The three spaces are being investigated as a unique urban ecological niches, which can draw strength, areas for recreational use resources to build up a contribution not only Latvian, but also the culture, cultural history, politics and economics.

In the research there are put forward three tasks:

- 1) to research the recreational resources of Latvian state and prospects;
- 2) to explore the tree plantation and recreational values in urban areas;
- 3) to split Jelgava Ozolnieku county forest array of three separate landscape areas, which determine the sustainability principles in planning for recreation and study the sites of possible balance of quality and aesthetic resources.

The aim of the research: to view Ozolnieku massif forest recreation resource development vision.

Recreation resource analysis of the situation

1. Green leisure recreation development opportunities in Latvia

At the moment in Latvia there is very little and limited data and information about the recreation in general. The Latvian forest landscape and the recreational level is difficult to be demonstrated in the qualitative terms. Rather, the recreational level of Latvia is with a minus sign. (Zvirgzds, Maurins 2006:447) The recreation is very often associated with other qualities of the urban environment and it is part of the human life. Latvia therefore lack the systematic approach to recreation and tourism complex spatial planning, in most studies by the recreation and tourism sub-sectors there is not carried out the rhythmically structured analysis of the global trends.

The Latvian recreation over the past 10 years for the public has reached a growth of just offshore and individual recreation complexes. The most popular and highest quality array of the forest recreation resources in Latvian is Tervetes park and the Gauja National Park. In many areas landscape quality of the scheme is not studied, or analysed, it accounts for the necessity to analyze the current situation and then give details whether the area is provided for a putative idea.

Most Latvian coastal studies have made by the Riga Technical University of Spatial and Regional Development Research Center scientists, J. Trusins, O. Buka and A. Ulma developing and researching a variety of recreational resource models, the cross-synthesis, and evaluation of the impact of future developments.

The region of Latvia, where the summer season is about 90 days long and weather conditions are not always stable and warm, is more suitable for mobile relaxation model. The coastal area has a developed transport system. The tour concept is based on the possibility of the changing modes and use different types of transport, and journey time by enabling at any point convenient to change the direction, or offering a chance to stay put a particular time period. The car rental and wheel system development started in 2004. The public transport continued to develop in the direction along the coastal areas to help create a recreation center and promote the use of resources. Such a system will facilitate the linking of forest and increase the availability of resources. The settlements' architectural heritage, nature and landscape is a base for the tourism development. Each recreational environment choosing an appropriate recreation process ensures the environmental compliance requirement. The manor serves as spa centers and tourist information facilities, and natural objects are used as part of the routes for cycling, but – as landscape corridors for intermediate relaxation. (Latvian Tourism 2007)

In view of the protected areas and the number of institutions involved in the quantity the thing of the utmost importance is to implement the principle of unity in the recreational sector of the forest massifs. Forest tracts not only increase money by the way of cutting them.

When specifically exploring the city, it should be the one of Jelgava – which is rich in unique urban ecological niches, nature reserves, protected habitats and floodplains, which can draw strength. But the popularity of recreation depends on its location. It is also an important argument, if recreation space is located in a rural area or town.

2. Recreation on European and global level

If we compare the recreational levels of Latvia and the developed countries, such as Spain, Greece, Turkey and Germany, they are 400 times higher-developed than Latvia. During the past five years, the popularity of recreation has risen in Finland and Norway. In these countries, the recreation acts as a systematic process for recreation and confers to economic, design type, architectural and ecological function. It is not to speak just about running or skiing through the forest along a beautiful trail, the recreational resources have been thoroughly planned and, because the science is involved, a wide variety of governmental funds are allocated for its implementation. The European recreational resources are major elements of the development of tourism, recreation resources, therefore, they are expressed in monetary terms.

The biggest problem of the European Union is the just balancing of recreational resources and the sustainability of usage. The most popular world tourist projects degrade the environment badly quite fast, that it is necessary to implement the structural changes in the environmental area, to enrich the landscape with ornamental plantings. Sustainable development requires more difficult steps: for example, to analyse the current situation, which is the key to all the information and knowledge gathering. Strategy development is the second step for the sustainable development. In this step the priority issues should be identified by the all stakeholder groups, as well as it involves the identification of potential targets and the methods by which the results could be achieved. And the final step is to define the action plan.

When tourists who have been in the tourist holiday destinations recently are being asked about their perceptions, they will mention the most memorable and recognizable things about the place. It is easier to implement the reputation-building process with the help of the symbol – the city skyline. Therefore, the development of forests, can be used for positive impression. German city Immenstades is an example: in 1991 the city decided to establish the mark, which would make this place memorable and popular meeting place. (Von Rohr, Corves, Sterr 2008). It was necessary to satisfy the tourists' need for a physical and psychological comfort level of recreation experience – the hospitality principle, which means the necessary service information and inventory at any time, only in this way the length of stay of tourists and spending their finances can be fostered. (J. Trusins 1985:106)

The recreational resources, for example, the Veinameri projects in Estonia that renovate and maintain the semi-natural coastal ecosystems, work in three key sectors –

agriculture, crafts and eco-tourism. They exhibit the extensive beach with reeds, coastal grassland and limestone grassland, which constitute the habitat of the thousands of birds and mammals, as well as soils for the rare plant species. The shallow, clean sea, where daily the sun's rays reach the bed of thousands of square kilometers in area is rich in organic life. However, the Estonian coastal landscape has never been entirely natural. Over the past few thousand years people have inhabited the coast, developing agriculture. The whole coast has always been grazed. The coastal farm degradation during the second half of the twentieth century has led to the significant degradation of the coastal habitat. An open coastal land in forest meadows, limestone grassland, coastal spacious lawns that had once been rich with various species, is now overgrown with bushes. Estonia restored this type of ecosystem, with the sensitive ecosystem management. Some Estonian non-governmental organizations in cooperation with the World Wildlife Fund's Sweden section Veinameri have initiated a project to restore and maintain the semi-natural coastal ecosystems by helping the local people to build small-scale enterprises. The environmental education and the awareness of development are also important components of the project. (Sustainable Tourism 2004)

Currently, the most popular and ambitious recreational Project resource is the one of the "Park and Recreation Trends and The Health and Social Benefits of Recreation: An Element of the California Outdoor Recreation Planning Programme", approved in 2005 in the United States, California. There currently live 34 million people, and the number of residents increases for about 500 000 people every year. The design has been developed up to the year of 2040 offering the recreational resources for 50 million. people. The main focus of the project is the improvement of human health and the extension of the premises. It is clear that the California recreational resources wear out much faster than the Latvian resources as the rapid increase in space will have to deal with the expansion issues, and it will also affect the financial matters associated with wooded urban areas, their ecological niches, natural and artificial plants and new building. (Park and Recreation Trends in California 2005)

3. Woody plants on the environmental and community characteristics of the urban space, compared with the Latvian possible nature

It is believed that the greenery of public areas couldn't be directly estimated and taking care of the installation causes only expenses, not benefits. Looking at that from the opposite side, just like at any result of the work, the planting design, the installation and maintenance make the greenery a material value and its owners are responsible for these values, their conservation and enhancement. It turns out, that effectively maintaining the greenery, the added values are population's health, and wellness, recreation, aesthetic upbringing, as well as profits in these sectors are not as easily quantifiable as the value of timber cut in the forest. The majority of man-made objects – buildings, roads, cars – from their very creation begin to be impaired, and

wear out, are beige depreciated, while the biological and social value of green plants is growing for many years. These values are declining, only when plants reach the last stages of their development.

It is necessary be aware that in our climates, the most deciduous trees and shrubs are covered with leaves that carry out photosynthesis in average for 4 months a year (from mid-May to mid-September) (Zvirgzds, Mauriņš 2006). In our latitudes, the most of the trees with a positive balance of photosynthesis (oxygen and carbohydrates produced by more than that consumed) can happen when the sun is at least 15 degrees above the horizon and the air temperature is above +10° C (see Table 1). Company's technological and economic pro CESI changed radically in the last century, but the same wouldn't be said of the wooden plants. By contrast, the genetic resources of tree species and their ability to adapt to these changes are almost unchanged. Plantation crops and forest trees as opposed to food crops (with rare exceptions) within the time-span of only a few generations have come out of the woods and kept most of the gain in the wild characteristics. In our XXI century of globalization, the environment and diversity of taste there remain open a number of questions about the place of wood, resistance, evolution and use of urban areas.

Table 1

Woody impact on the environment

Woody impact indicators	Effect % of the possible nature (Note: conifers)	The potential impacts of rank: I – the highest; II – mediocre
Landscape psychological effects	The performance level	Impact rankings
Landscaping and tree qualities of compliance	10...60%	I
Landscape trees optimum vitality	50... 70%	I
Landscape trees and other elements optimized for economy and durability	5... 50%	I
Optimal landscape tree diversity (naturalism), as an excessive amount of species should be minimized	10...40%	II
Optimal landscape view, structurally and functionally harmonize, tested traditions of many plan arrangement	20... 100%	II

4. Conclusions

At the present moment in Latvia there is very limited data and information on the recreation and its resources. The Latvian forest landscape and the recreational level is difficult to demonstrate in the qualitative terms. Rather, the recreational level of Latvia is with a minus sign. The recreation in Europe is very often associated with other qualities of the urban environment and it is a part of human life. Latvia lacks the systematic approach to the spatial planning of recreation and tourism complex, in most studies by the recreation and tourism sub-sectors the rhythmically structured analysis of global trends is not carried out. In view of the protected areas and the number of institutions involved, it is of the utmost importance to implement the principle of unity of the recreational sector of the forest massifs. The European countries recreation acts as a systematic process for recreation having also the economic and ecological functions. Recreation is provided on a landscaped space with a variety of greenery, which compositionally are located on the specific parcels. Planting design, installation and maintenance costs moves the recreation ground to the top level of the material goods, and the owners are responsible for these values, for their conservation and enhancement. The added value – population health, wellness, recreational, aesthetic upbringing, as well as profits in these sectors are not as easily quantifiable as the value of timber cut in the forest.

Tree planting and recreational values in urban areas

1. Trees and ecological niches

The greenery recreation area is linked to the concept of the ecological niche. The concept of the ecological niche during the last hundred years is substantially developed. It regards the species or populations of space-time, where the functional, process aspects dominate over the spatial, structural aspects. According to the American environmentalist G. Grinell the ecological niche was defined as a set of environmental conditions, which shall provide continuous and normal species in existence (1917). English environmentalist C. Elton has already indicated that the ecological niche of species is its functional role in the ecosystem – participation of species in the energy flow and nutrient cycling (1927). As well as it comprises the changing genotyped reaction norms of species within the ecosystem succession, and taking the other specimens of the species habitats in the new areas of human activity or influence. The ecological niche of a population may change significantly if the new environmental conditions unlock the part of latent genetic information for the previous generation. More fundamental changes in species and lower-level taxon changes can take place as a result of human activity, leading to the mutation resulting and vivid deviations. (Zvirgzds, Mauriņš 2006:1)

The ecological niche is in the direct correlation with the size of territory (P. Zakara Principle, 1928), as well as the variety of natural conditions in the area, even in a separate habitat. (A. Tineman Principle, 1939) The thickening of the ecological niche is observed in places where the type of site pass from one into another, the habitat bordering – ecoton. The ecoton represents the top of many species and individuals.

Closely related species exhibit the geographical substitution for each other (D. Jordan's vicariant principle). For example, the larch species in Eurasia consists of the vicariant species – *Larix decidua*, *L. russica*, *L.sibirica*, *L.gmelinii*, *L. kurilensis*. The vicariation species often have the similar ecological niche. The species introduction may prove to be unsuccessful if they are cultivated in close systematic groups (genera complexes).

The cultivation of trees is not only the process of their ecological niches becoming a new habitat conditions, but also the transformation of the conditions of the species ecological niche. For example, foresters have observed that the cultivation of spruce culture stand, were significantly acidified by changing their chemical properties. Larch cultures, especially *L.sibirica* culture, habits gold flavidus, which so far there has not spotted. New tree species comes not only with their mycorrhiza into the carriage, but they also changes the soil microflora and microfauna. Active substances secreted by the tree roots and leaves, more or less influenced by the immediate neighborhood. (Zvirgzds, Mauriņš 2006)

2. Woody plants in natural and artificial soils in Latvia

At the beginning of XXI century the forests covered approximately 49,9% of the land territories. Trees distributed in the derelict lands, unmanaged, growing behind the agricultural land tend to offset the forest lands. Such areas tend to be even in all big cities around unused routes and rail communications. Around the settlements the greenery are being planted for 200 years, trees are an essential component of it. The greenery in urban, industrial and manufacturing centers in the villages, villages themselves, suburban villages, towns, cemeteries, roads and lanes have raised the welfare of society and people. The greenery is also in everybody's possession. By now it has become a social superior quality and value in the environment a lot more than a territory. The greenery is like any gimmick, it is a perennial created by specialists who developed the project. Its ecological and aesthetic impact on the society and longevity largely depends on the project rationale, the site compliance and the natural conditions, the municipal employee's awareness and foresight. (Lawn, Zvirgzde: 2006)

3. Conclusions

The Latvian recreational resources of the many habitats constitute a unique landscape. Unfortunately, too many species of the same ecological niche in one habitat may not live long. The concept of the ecological niche within the last hundred years is substantially developed. It regards the species or populations of space-time, where the functional, process aspects dominate over the spatial, structural aspects. But too many species of the same ecological niche in one habitat may not live long. Latvia is proud of its landscape. The agrarian tribes about 4,000 years ago came and began to build their settlements. The Latvian landscape is unique in its diversity, it is possible to distinguish in the whole Latvian territory the essential and common features of the landscape.

Conclusion

Since the collapse of the Soviet Union, the Studies in Tourism and recreation areas Latvian are a part of the agenda, but the new serious research in this area is not being accomplished as yet. (Buka 1987)

It is necessary to develop the new and to update the existing studies of tourism and recreation.

The Latvian tourism and recreation system offers a new concept, the principles of sustainable development-based approach to the fundamental studies of tourism and recreation areas.

New the interdisciplinary recreation and tourism spatial system is important for the tourism and recreational use of resources under the market economy conditions for tourists as well as for local citizens.

Latvia and the European Union have similar strategy of the recreational resource, but there is no single recipe for its implementation.

The main fields of the present work is Jelgava and Ozolnieku array of forest recreation resource opportunities that might serve as an example for all of Latvia during next 15–20 years. The aim of the Project is to facilitate the sustainable tourism and recreation system in the urban and rural areas, which would satisfy both long-term local residents and foreign tourists. The summarized results of the study, their publication and presentation to their local and international audiences, will serve as the basis for scholarly papers, conference and seminar programs, guidelines for local and state authorities and the executive administrative and territorial planning program implementation efforts. The scientific objective is to develop an array of forest Ozolnieku agenda for sustainable development of European or even global level, raising recreation and tourism as a priority, the competitive sector of the economy, which provides the effective Latvian recreation and tourism resources, the improvement of the quality of life and the increase in the international demand.

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SPECIFICS OF DOCUMENTARY CINEMA IN THE CONTEXT OF OTHER CINEMA TYPES

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Abstract

Even though the history of cinema has lasted over a century, nowadays cinema theorists still have different opinions regarding the division of cinema – whether it should be according to type, genre or other criteria. In world cinema theory still no unitary classification system has been developed, and films are classified according to filming approach, content, style and other aspects; different theorists consider that the number of genres varies from 3 to over 300. This state of affairs is a significant obstacle for consistent, scientific cinema research, because there is no common ground for classifying and analysing cinema.

Theorists also lack a common opinion regarding what should be considered as documentary cinema and to what extent it is actually ‘documentary’, how does it differ from feature films and whether it differs at all. Even though the term ‘documentary cinema’ is based on the word ‘document’, many researchers believe that true documentary cinema does not exist.

The article reviews the cinema classification principles and analyses the concept of documentality in feature and animation, as well as documentary cinema.

Keywords: *cinema, documentary cinema, documental.*

Introduction

When the Lumière brothers organized the first cinema screening in the world on December 28th, 1895, only one film – “The Waterer Watered” (*L'Arroseur arrosé*) – out of ten short films was fictional (it had two characters, played by actors). The other nine were documentary films. So it can be said that cinema started with documentary films.

However, even though the history of cinema is more than a century old, the world cinema theorists still have not converged upon a single opinion regarding what documentary cinema is and how ‘documentary’ it is by essence, what are the core differences between feature cinema and documentary cinema, and if there are any at all. Different authors have different understanding of these questions as well as whether the general approach of dividing cinema should be into genres, types or by other criteria. There is also a lack of common understanding of the basic terms – what “types of cinema” are there, what do “genres of cinema” mean, how many of them are

there etc. This leads to serious problems when we attempt to consistently research cinema, because there is no common framework for classifying and analysing films.

Classification of Cinema (types and genres)

In essence, cinema is interdisciplinary, because it comprises elements and means of expression from several other types of art – theatre, music, visual art, architecture and others. These elements are used through synthesis, not mechanically, thus creating a new, heterogeneous piece of art – a film. The classification and research of films is difficult, because they are very different from each other, not only in terms of form, composition, length, means of presentation, but also regarding the use of technical and artistic means in the creation of the film, as well as other specific aspects.

Regardless of these problems, nowadays there are two predominant trends for categorizing the basic types of cinema.

The first trend prevails mainly in theoretical research of cinema and is based on whether the films are created with fictional plots and with fictional characters portrayed by actors (professional, non-professional, animated), or whether the film depicts real people and real life events. In English these two opposing types of cinema are dubbed *fiction* and *non-fiction* films, in Russian the terms used are *игровое (постановочное) кино* and *неигровое кино*. In Latvian these types are not described by precise terms.

Under this classification the fiction film group comprises live action films (with the participation of actors) and animated films (the characters are created by drawing or other means of visual art and technology and subsequently transferred to film). The non-fiction film group comprises all films where the characters are real objects (people, animals) and where they represent themselves. These films are called documentary.

Such classification is, admittedly, up for dispute. There are many films in the history of cinema which present a fusion of the criteria basic for this classification – whether the film and its environment are staged, whether the characters are real or fictional. A typical example is the famous 1992 movie *Baraka* by Ron Fricke, which is a montage of real life scenes from all over the world; however, the reality is pulled apart by means of editing, video and sound effects, and the film becomes a contemplative journey with no distinct plot, incomparable to traditional documentary films.

Also in Latvia there are films which are difficult to classify according to type. For example, “White Bells” (*Baltie zvani*, 1961, script – Hercs Franks, director – Ivars Kraulītis) is a work of cinema created through the means of a fiction film, based on one day in Rīga experienced by a little girl. The city becomes the second most important character in the film and it is difficult to distinguish between documentary and set-up

scenes throughout the work. The search for a new cinematic language in this film became one of the cornerstones for the school of Rīga poetic documentary cinema.

Another characteristic example is the film “Apple in the River” (*Ābols upē*, 1974, scriptwriter and director – Aivars Freimanis). In this work the documentary scenery coexists with the love story portrayed by two characters, the first carried out with as little author intervention as possible, only sometimes provoking real life events. In this and the previous film real and setup scenery are completely fused together.

Another interesting example of fusion of film types is the documentary animation “Through the Eyes of Chizis” (*Čiža acīm*, 2007, scriptwriter – Nora Ikstena, director – Edmunds Jansons). It is an authentic story by Rīgas Iriņa Piļķe (also called Chizis), which she has recorded in diary drawings during her more than 80 years long lifespan. Technologically this film is drawn animation, “bringing to life” the events shown in the diary, however by content this film is a documentary, because it is based on real life events, the characters are real people etc.

These examples verify that it is difficult to draw precise boundaries between fiction and nonfiction films, and not always this classification is precise and correct.

The other type of classification is less common in cinema theory, however it is widely used in film practice (for example, most film festivals are structured according to this principle, film studios usually specialize in shooting a specific type of films etc.). This classification means that there are three basic types of cinema – feature films (Russian: *игровое кино*), documentaries (Russian: *документальное кино*), and animation (Russian: *анимация*). Each of these types has specific features that allow it to be distinguished from others, upon development each of them have acquired a system of expression means. However, similarly to the previous classification, each type is interacting with others in synthetic and artistically enriching ways. (Nečaja, Ratņikovs 1983: 21) The author of the article, both a cinema practitioner and theoretic, considers the second type of classification better grounded and more practical, and will therefore use it in further research.

In order to explore the specifics of documentary cinema in the context of other types of cinema, the author begins by characterising the basic principles of other cinema types as well as the genre system, because the latter is what helps towards a better understanding the essence of every type of cinema.

It was already mentioned that the term ‘cinema genre’ has not been precisely established in cinema research and is not thoroughly understood. Generally a ‘genre’ (from French *genre* – type, sort, style) is “a stable, historically developed type of artwork. In regard of artwork this term was first used in Aristotle’s “Poetics”, where he described types of imitation and manners in poetry. A basic scheme of genre definition was drawn in “Poetics”, however, this scheme was to be considered very deliberate, because Aristotle based his understanding of genre in conventions and historical research, and defined genre

according to convention and aims. Even though more than two thousand years have passed since Aristotle created his genre theory, still nowadays a common definition of genre, attributable to all types of art, has not been established. The terms ‘type’, ‘variety’ and others are often used as synonyms for ‘genre’. The overall situation in art theory and research is made more difficult by the fact that nowadays there is a spreading tendency for types of art to merge and overlap, thus creating interdisciplinary works (for example, stage design in ballet is embellished with video elements; the visual art genre of installation often merges several types of art – poetry, theatre, music, cinema, architecture etc.). However each of these types of art is differently divided into genres and the terminology used is different as well, making the definition of genre classification even more difficult.

The vagueness of the term ‘genre’ greatly influences the establishment of cinema genres. What criteria should be used for dividing films into genres? Should genres be defined by their emotional message (e.g. tragedy, comedy), by their psychological influence (e.g. horror movies, melodramas), by audience (e.g. children’s movies, family movies) etc.? There is no common agreement between cinema theorists. The situation is made even more difficult due to films being described not just by genre, but also by such terms as film style, variety of expression means, of methods for portraying reality. All of this broadens the possibilities for film classification. Thus scientific cinema research employs different levels of analysis when determining a genre: starting by the basic distinction into 3 basic genres (drama, comedy, tragedy) and ending with a highly stratified multilevel film genre classification, which comprises over 300 genres and their subtypes.

One of the most distinguished genre theorists in the world, American cinema critic Barry Langford, in his book “Film Genre: Hollywood and Beyond” has acknowledged that in cinema research the term ‘genre’ serves as:

- an industrial approach which standardizes production, especially in the age of film studios, and marketing is tailored to suit general marketing and accommodation;
- a consumer index which gives the public a notion of what pleasures to expect from a certain movie; also an approach for organizing movie rental shelves;
- a critical notion, a tool for theorizing the relationship between films and groups of films in order to understand the complex relations in popular culture, as well as to create the taxonomy of popular cinema. (Langford 2005: 112)

The author of the article concurs with Langford and believes that this understanding of film genres is attributable to all three types of cinema.

Feature Films

Feature films or ‘art cinema’, as they were called in the Soviet Union and thus also in Latvia, are a category including any film with actors. It is a portrayal of reality with the aid of artistic performance; in essence it is fully staged cinema. The feature film is

usually based on a fictional plot or story with characters portrayed by actors. (Nečaja, Ratņikovs 1983: 59) Sometimes it is also called narrative cinema and it is the most common and popular type of cinema nowadays. Usually these films have a common stylistic and artistic conception and they can be classified into one or more genres, not just for scientific measures but also for a practical reason – to aid the viewers in choice of movies (cinemas, TV schedules and movie rentals usually mark the genre of the film, thus helping the viewers be less confused in the wide range of movies available and to help choose according to mood, taste or other parameters).

The classification of feature film genres is carried out by comparing the plot, theme, characters and many other features intrinsic to film. Feature film genres do not have distinct boundaries – they are usually flowing and different genres seamlessly merge into one another, thus creating new genres. Besides, every feature film genre can be subdivided into other genres or types, and often theorists disagree over the basis of classification. For example, Professor David Bordwell from Visconsin University (USA) suggests the following classification parameters:

- period or country (e.g. 1930s American films);
- director, actors, producers, scriptwriters, film studios or technical process (e.g. 20th Century Fox films);
- object (e.g. films about women who fall into disgrace);
- seriality (e.g. James Bond films);
- style (e.g. German expressionism);
- structure (e.g. non-linear narrative);
- ideology (e.g. films supporting the opinion of the USA government);
- place of viewing (e.g. drive-in cinema);
- audience (e.g. films for teenagers);
- subject or topic (e.g. family movies, films about politicians). (Bordwell 1989: 148)

Robert Stam, Professor at the New York University, expresses an opinion that some genres are based on the content of the story (war movies); others are borrowed from literature (comedy, melodrama) or other media (musicals). Some are based on actors (Astaire-Rogers movies) or budget (blockbusters), but others on the status of artistic merit (art-house films), racial affiliation (black cinema), place (westerns) or sexual orientation (queer cinema). (Stam 2000: 14)

British semiotic Daniel Chandler, in his book “An Introduction to Genre Theory” summarized several cinema theory opinions on the principles for slotting films into genre categories and sequentially created his own film evaluation system. He advises film characterization to arise from the following aspects:

- narrative – similar, sometimes even standardized plots and structures, predictable situations, sequences of events, episodes, obstacles, conflicts and solutions;
- characters – similar types, sometimes stereotypes, of characters, parts, character traits, motivations, aims, behaviour;

- basic subjects, themes (social, cultural, psychological, professional, political, sexual, moral), value and meaning templates;
- scene of action – historical and geographical;
- iconography (similarly to narrative, characters, subjects and scene of action) – a set of familiar pictures or themes with particular connotations; primarily, but not necessarily visual, including interior, dress and objects, particular characters (possibly iconic), familiar dialogue templates, characteristic music and sounds; suitable physical topography;
- filming techniques – formal or stylistic conventions of camera, light, sound, colour, editing etc. (usually viewers do not notice these conventions as much as those that are related to content). (Chandler 2000)

Chandler's classification of genre criteria is one of the most developed and elaborated. It includes multi-faceted aspects of cinema. However this classification does leave out several other important parameters, which may not be so easy to distinguish, for example – these categories do not allow for easy inclusion of 'tone' or 'atmosphere' (which are the most important features for such a genre as *film noir*). Another important aspect, often not included in the traditional genre descriptions and rather attributed to literature is the relationship between text and reader. In cinema that means form of address, which included presumptions about the viewer, such as "the ideal viewer is a 40-year-old male, middle class office worker, married and lives in the city" (these categories usually comprise social type, age, gender and race). This form of address is very important and sets the tone of delivery for the film. A detective addressed towards men of the type described above, in terms of language, character system, tempo, editing styles etc. would be different from a detective addressed towards young women.

Regardless the fact that there is no common understanding of cinema genre detection, precise genre definition and systemization (Daniel Chandler calls this problem "the mine-field of cinema theorists" (Chandler 2011)), and that opinions vary and come into contradiction, the genre based distinction of feature films has developed over time and is nowadays actively used in both theory and practice, in order to help the viewers orientate themselves in the vast amounts of movies available and to enable them choose a movie according to their preferences.

Animated Films

Animation is another basic type of cinema. In animation films, similarly to feature films, the plots are set up by scriptwriters, however in this case the characters are not "live" actors like it is in feature films. Drawings or 3-D tools are used, and the consecutive movement of the pictures on tape creates an illusion of movement.

(Nowell-Smith 1996: 71) Thus, animated cinema is a synthesis of art types, where visual art meets the so-called art cinema (that is, feature films).

The name ‘animation’ originates from Latin *anima* – soul; thus also the English term for reviving something – to animate. Nowadays the term ‘animation’ describes both one of the basic types of cinema, where inanimate objects come to life on the screen, and the technology used for creating these films. This is asserted by the Oxford English Dictionary, where animation is defined as “the manipulation of electronic images by means of a computer in order to create moving images” (especially pertaining to multiplication)¹, as well as “the technique of filming a sequence of drawings or positions of models to create an illusion of movement.”² Belgian cinema theorist Jan Gartenberg in his “Glossary of Filmographic Terms” defines animation as “skills, techniques and processes, which are involved in making inanimate objects seemingly moving and live through cinematography.” (Gartenberg 1985: 23)

Technologically animation means that the cinema tape contains static pictures displayed continuously. In order to create the illusion of movement, the movement is divided into phases and these phases are then shot. If you carefully view animated film material, it is clear that the character’s state ever so slightly differs from the previous or next frame. Afterwards the tape is played back at a certain speed. Usually this speed is 24 frames per second (in the era of silent cinema the speed was 16 frames per second, this is why in old movies movement seemed more unnatural and jerky). 24 fps are enough for the human eye to be unable to discern the flicker between frames and to view separate pictures as one whole where the movement of an object is portrayed. An illusion like this is possible due to the specifics of human vision – the retina is able to retain an image for a short time until it is laid over by the next one.

The genre classification in animated cinema is similar to that of feature cinema and the classification is determined by the basic principle of both types – movies are created on the basis of imaginary, set up plots. A script is basically a work of literature, thus both cinema types lend their basic genre classification from literature, which then evolves into a subgenre system specific to cinema.

However, alongside genre classification in animated cinema, technical differences and the animation technique used play an important role, for example, drawn animation, 3-D or dimensional animation (the most popular subgenre here is doll animation), application technique, computer animation etc. Each of these techniques is unique and

¹ Multiplication (in Latin *multiplicatio* – multiply) – this technological term was initially used for animation as a type of cinema. This tradition lasted the longest in the Soviet Union – there the term ‘animation’ only came to usage in the 1980s.

² “Animation – the technique of filming a sequence of drawings or positions of models to create an illusion of movement” in The Compact Oxford English Dictionary of Current English – [Online] http://www.askoxford.com/concise_oed/animation?view=uk, (Accessed 28.03.2011)

contributes to the artistic means employed by the film, thus often contribute to the tempo, character, visual solutions of the movie. The importance of technology in animation is testified by another important aspect – the manipulation of reality is possible to a greater scale than it is in live action feature films. In an animated movie the most incredible and hardly imaginable plots, events and environments can be brought to life by drawing (e.g. space, underwater life, micro and macro worlds etc.).

Documentary Cinema

The term ‘documentary cinema’ (*документальное кино*) is based on the word ‘document’ (Latin *documentum* – proof, evidence). The famous semiotic, Professor at the University of Tartu, Yuri Lotman points out that the essence of documentary cinema does not unequivocally emerge from ‘objective reality’, ‘proof’ and ‘undeniability’ that this term contains, and that the connection is rather linguistic. He emphasizes the idea that a document is an impassionate fixation of a fact, event etc., whereas a film, no matter how ‘documentary’ (based on documents or real facts, with real characters), is still an interpretation of ‘reality’. (Лотман 1985: 23–24)

Several other researchers think that real “documentary” cinema cannot exist. The author has summarized opinions of this type and supplemented them with own empirical findings, as well as systematized the reasons which forbid documentary cinema of becoming completely documentary:

- firstly – every person being filmed starts to “act” to a greater or lesser extent by thinking about how they look, how they sound etc., thus they are not 100% natural, not “true to life”;
- secondly – the director, when deciding upon what the film is going to be about, what is going to be filmed, in what way it is going to be edited, what the narrative is going to sound like etc., is clearly subjective, thus every documentary film (including a newsreel and even an archive piece) will be different from reality, regardless how close to it;
- thirdly – a large role in the fixation of the documentary material is played by the cinematographer – he is the one who crops the shot from the external world. One and the same object can be shown differently with the aid of camera – large (close-up) or small (long-shot), create an effect of monumentality (by shooting from a low angle) or comicality (by slanting the shot or tipping it to the side). The camera in the hands of the cinematographer has great power and it is the skill or the wish to show an object from a particular angle that can create the viewers’ attitude towards what is being shown. This also means that true documental effect is lost and certain manipulative or staging aspects appear;
- fourthly – even in documentary films the characters are often provoked to do some actions, to show emotions such as anger, joy or others, or to show some

aspects of their personalities. Filmmakers use these tools to “concentrate” screen time, make the plot more interesting and more useful for the purposes of presenting the idea of the film.

Many experts consider these points contradictory to the existence of true documentary cinema and thus regard it as a type of fiction cinema. However a different opinion also prevails.

Other authors believe that, contrary to fiction films, which are only reproduction of reality (often 100% fictionalized), the documentary is based on reality itself, fixations of reality in different ways that set these two types of cinema apart in principle. Upon viewing this distinction more broadly, “The Routledge Companion to Philosophy and Film” states that “all human communication involves the selection, omission, and arrangement of signs and decisions about what to show or say and how to show or say it. This is true of the documentary film just as it is for written journalism and history, instruction manuals, wedding announcements, political speeches, and indeed all forms of nonfiction discourse.” (The Routledge Companion to Philosophy and Film 2009: 495)

In search for an even more precise definition – documentary cinema is “all methods of recording on celluloid any aspect of reality interpreted either by sincere and justifiable reconstruction, so as to appeal either to reason or emotion, for the purpose of stimulating the desire for, and the widening of human knowledge and understanding, and of truthfully posing problems and their solutions in the spheres of economics, culture, and human relations.” (The Documentary Film. Pare Lorentz Film Center)

This opinion is cultivated by American media researcher Patricia Aufderheid: “We do not demand that these things be portrayed objectively, and they do not have to be the complete truth. The filmmaker may employ poetic license from time to time and refer to reality symbolically [...] But we do expect that a documentary will be a fair and honest representation of somebody’s experience of reality.” (Aufderheide 2007:3)

Thus, if a fiction film is the portrayal of reality in the form or play, then a documentary is the fixation of reality through the viewing prism of the author. “In documentary cinema the author stands between reality and the viewer, the author’s conceptualization of the material is realized cinematographically. The author of the documentary manipulates real life characters, and that is the main feature of a documentary film, as was regarded already by the first viewers. They thought that they saw life itself on the screen, a feature that was later dubbed “phenomenon of belief”. However, everything the viewers see in a documentary is not the flow of life on its own, it is the depiction of events, facts, characters, selected and portrayed by the author in a certain manner.” (Nečaja, Ratņikovs: 1983: 60)

Similarly to fiction films and animation, documentary cinema can be classified into different genres, subgenres, types and subtypes. However, the classification and the criteria used are different from the classification of the two other types of cinema. Different principles come into play, which is determined by the fact that the genre

distinction in documentary cinema is less rooted in literature. It should be noted, however, that there is no consensus about this between documentary cinema theorists and the analysis of films. Their division into genres is a hotly debated issue.

For example, the widely regarded Russian cinema researchers Olga Nechai (*Нечай*) and Genady Ratnikov (*Ратников*) believe that documentary cinema can be divided into three large divisions – according to whether a person, an event or a problem is central to the film. However they also concur that it is hard to define precise boundaries within this approach: “of course, this division is conditional and a film can easily host different aspects – a problem can be unfolded through portraying a person, an event can help establish a problem etc.” Still, the authors have distinguished the most characteristic documentary genres as per the tasks set out by filmmakers:

- if the film focuses on a person and his/her character, it will often be shot in the manner of a *cinematic portrait* or *description*. The artistic means in such a film are employed for one reason – to reveal the character, individuality and uniqueness of a person at its fullest;
- a film on an *issue* will portray a socially important problem as the focus of the piece; usually a problem in need of an operative solution. This kind of film is structured around the issue and every aspect of the film is dedicated to the analysis of the said issue;
- a film about *events* will be the one where the authors are capable of fast and dynamic portrayal of an event, covering its most important moments and detail. (Nečaja, Ratnikovs 1983: 61)

This division is very broad and does not include the more specific genres of documentary cinema, however it provides an insight in the most basic principles of categorizing documentary cinema. The author concurs with the opinion of Nechai and Ratnikov – one of the most important aspects for dividing films into groups and genres is the manner of the subject attended in documentary research, whereas the stylistic approach of the filmmakers allows for the documentary to be classified as a part of a certain artistic trend. This division into genres can be illustrated by examples from the Latvian documentary cinema.

Cinematic portrait – one of the most popular genres amongst the Latvian documentary filmmakers. Most Latvian directors have created great cinematic portraits of people which have entered gold reserve of world documentary cinema. For example, Herz Frank with the 1972 film “Lifetime” (*Mūžs*) about Edgars Kauliņš, the chairman of a Latvian kolhoz; Ansis Epnars with the 1975 film “Kristaps’s Grandson” (*Kristapa mazdēls*) about the doctor Manfred Esse-Ezing, as well as 1978 films about Sergey Eizenstein (*Sergejs Eizenšteins. Prologs, Sergejs Eizenšteins. Post scriptum*), and the 1980 film about a famous chess player (*Mihails Tāls. Pēc 20 gadiem*). Other Latvian directors have contributed to the genre as well: Aivars Freimanis created a film about a Latvian writer (*Jānis Jaunsudrabiņš*, 1981) and about an extravagant composer and author Margērs

Zariņš (*Hepeningis ar M.Z.*, 1987); Juris Podnieks depicted two Latvian choir conductors (*Brāļi Kokari*, 1978); Andris Slapiņš made a film about a Latvian folk tale researcher (*Krišjānis Barons*, 1984); Rolands Kalniņš has created a portrait of a famous Latvian actress Vija Artmane (*Saruna ar karalieni*, 1980); Ivars Seleckis has made films about the writer Regīna Ezera and the composer Raimonds Pauls (*Sieviete starp diviem romāniem*, 1984; *Maestro bez frakas*, 1985). The most portrait films have been made by directors Laima Zurgina and Ruta Celma. The first has made several documentaries about famous poets and artists (ballet dancer *Māris Liepa* (1971), poet Ojārs Vācietis *Ceturtdā dimensija* (1977), *Imants Ziedonis. Portrets locījums* (1979), visual artist *Džemma* (1986) etc.); the latter has similarly contributed to the portrayal of the Latvian culture workers and artists (*Kārlis Zariņš* (1977), *Mirkļi ar E. Valteru* (1979), *Kārlis Skalbe* (1990) etc.).

This is by no means an exhaustive list of portrait movies created by Latvian documentary filmmakers. Most of the documentaries in this genre in Latvia were created in the 1970s–80s, and, thanks to these films nowadays the audience can see important figures in the cultural, scientific etc. history of Latvia, hear them speak on interviews and learn about their opinions, even though many of the portrayed people are not alive anymore. The importance of portrait films as a subgenre is priceless in terms of contributing to a certain era and documenting the people who were a part of it.

Documentaries on *issues* have also been produced by Latvian documentary filmmakers. There are socially important films such as *Sieviete, kuru gaida* (1978) and *Meklēju vīrieti* (1999) by the artistic duo Ivars Seleckis and Tālivaldis Margēvičs; a stellar documentary on the troubled youth by Juris Podnieks “Is It Easy to Be Young?” (*Vai viegli būt jaunam?*, 1986); Ansis Epnars has contributed with several pieces (*Četri meklē miljoni* (1979), *Asinsaina* (1983)) and so has Herz Frank (*Aizliegtā zona* (1975), *Augstākā tiesa* (1987)). Most of these films, based on socially important issues (such as the role of men and women in the society, alcoholism, causes of crime, identity search of young people etc.) gained the appreciation of audience and became cult movies in Latvia as well as abroad.

Films on *events* can be divided into two trends. First, these can be movies about large, socially important events such as the Latvian song and Dance Festival, sports championships as well as other socially or politically important events. In such films the important aspect is empathy and sense of unity, because a majority of the audience or at least their family members will have participated in the events. The second trend is depicting events important locally – in a family, a village, an enterprise. For the participants the event is important, they state their opinions and attitude towards what is portrayed in the film; the audience, however, not being directly involved with the event, can either identify themselves with the people on the screen or contemplate and form an opinion on the events witnessed.

Results and Discussion

- 1) In film theory across the world no unitary film classification system has been developed, and nowadays movies are divided into genres by technical approach as well as aspects of content and style. This poses difficulties for consistent, scientific cinema research.
- 2) Most commonly films are classified in two levels – the first is division by film types and is based on the artistic means used in producing a film; the second level is subsequent division into genres or technical approaches.
- 3) First level (types) classification is divided in two trends – first of them is more common in theoretical approach to cinema and is based on distinction between the usage of fictional plots and characters portrayed by actors versus the depiction of real life events and real people. The second division is less common in cinema theory but is widely used in practice. According to this division, there are three basic types of cinema – feature films, animation and documentary cinema; these types arise from multiple aspects of film production.
- 4) Even though the term ‘documentary cinema’ is based around the word ‘document’, many researchers believe that there can be no true documentary cinema according to this term; several believe that the term ‘documentary’ in terms of cinema is an oxymoron (a junction of inherently contradictory terms). However the author of this article does not concur with this opinion and considers a documentary film to be the depiction of reality through the viewing prism of the filmmaker, whereas the fiction film is the portrayal of reality by means of play.

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THE LOCAL GOVERNMENT OF LATGALE (1920–1934), CULTURAL-HISTORICAL ASPECTS

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Abstract

One of today's Western Europe democratic bulwarks is the regional government, which in the according cooperation model with the central state power, ensures the efficiency of the constitutional system. Analysis of the development of historic system of the local region makes possible the judgement about the state's democracy in general.

The aim of the current research is to explore activities of the regional government of Latgale from 1920 to 1934 in Latvia and to pay attention to the frontier area of the regional government of the Eastern Latvia and to certain individual cultural aspects

The elaboration of the theme is based on the documents of the historic archive of the Republic of Latvia; the documents allow envisioning ways how different representatives of ethnic and religious groups can exist together and mutually collaborate.

The action and the development of region government of Latgale should be viewed in relation to national traditions, existing religion, regional mentality, and also individual activities which influenced the processes during the particular historic time. Cultural aspects, which appear in the lifetime of the local government of Latgale, are also important in the context of history of Latvia.

Key words: *regional government of Latgale, national traditions, religion, regional mentality.*

Local governments in Latvia as the basic elements of the constitutional system are rooted in the traditional principles of the Western European democracy. The local government as an institution must involve citizens in the administrative work in order to realize the economical and cultural needs and demands of residents. There shouldn't be a gap and detachment between residents and the governing body in the local government, therefore, the examination of the history of the local government can expose mistakes failures, so that it would be possible to avoid them in future.

The formation of local governments of Latgale and their development during the period of democracy of the state of Latvia (1920 – 1934) have not been researched as yet; therefore, it was important to analyze the problems of local governments of

Latgale in the context of other regions of Latvia. The formation of local governments in the region was closely related to historical circumstances, events and the mentality of the Latgalian people, their religion and cultural traditions affecting the work of local governments specific historical situation.

The research basis of the current work consists of the historical archive documents of the state of Latvia which the most precisely represent data on the territorial administration of the region of Latgale. Within the framework of the work there the historical genetic method was used applying it to the elements of statistical methods chronologically, from 1920 to 1934.

The aim of the work – to ascertain the work of local governments of Latgale (1920–1934), as well as the existing cultural aspects and residents' attitude toward them.

The aim is being achieved by performing the following tasks:

- to search the influence of the local government on the formation of the cultural environment;
- to analyze the legal actions of the local governments of Latgale in determination of borders and renaming the administrative centers.

Topicality – certain contribution in the research of the local history of Latvia.

Novelty – the theme about the local governments of Latgale and their influence on the society is being researched for the first time in Latvia's history.

The local governments in Latgale were administrative territorial units with their own local self-determination and their respective historical mentality.

The awareness of the ethnic identity was not essential in the 20-ies of the 20th century 20-ies, during the period of the state of Latvia formation. The residents of Latgale also faced the problems were specific for Latgale region taking into account its historical heritage. In the Eastern frontier area of Latvia there began the new period of historical development which exhibited the introduction of democratic traditions in region until virtually inexistent. The idea about autonomy of Latgale region rose already in 1917 though in 1918 the historical decision to unite three regions – Kurzeme, Vidzeme and Latgale in one unified formation of the state of Latvia was made.

The 20th century demonstrated that the development of nations and nationalism was the way, how to involve a large number of people in politics, so that to ensure residents' support for the administration and the territorial wholeness. In the Eastern Europe the Doctrine of Nationalism became widespread when the ethnical groups were not established as settled; independent political units and their territories were parts of foreign empires (Miroslav Hroh). The Baltic states have never existed as individual political units therefore the struggle for independence gained the powerful ethnical accent that led up to the contradictions among different social and community groups.

German philosopher Jurgen Habermas considers that aspiration of the Baltic states after gaining their independence can be categorized as “the struggle for acknowledgement”

with intention to earn the “Great nations” acceptance and appreciation of new emerging nations as equals, admitting their culture and uniqueness. At the beginning of the 20th century the Latgalians were searching the way to their identity and also the cultural existence. The question was, whether go about the way of Fr. Kemp or Fr. Trasun. Fr. Kemp considered the idea of sovereignty of Latgale, but Fr. Trasun supported the unification in one common state – Latvia.

The ethnical identity in society is significant also in the contemporary society, if it complies with people’s needs for safety, solidarity and meaningful action. Today the Latgalian language is being requested to be assigned the status of the regional language in Latvia, because for the large amount of inhabitants of Latgale is important to have the historical consciousness, culture and language, but the interpretation of the history of Latgale in the society often differs from the scientific approach.

The history of local governments of Latgale demonstrates that, how the representatives of different religion and national ethnicities could live together and act identifying themselves with definite region and common administration. This is an example, how without any large inter-ethnic social conflicts society can come out of the initial of democratic doctrine.

The change of ethnographic borders for local governments of Latgale was the historical event in 1920. At present the border of the European Union is also the border of the Eastern Latvia which territorially and historically is the region of Latgale. The Eastern border of Latgale is an important “artery” for Latvia and for member states of the European Union in their trade cooperation with Russia.

In 1920 the government of Latvia and local governments of Latgale began work at determination of the administrative territorial borders. The border question for the local governments of Latgale was urgent till moment when The Border contract between Latvia and Russia was signed.

The government of Latvia signing the Peace contract with the Soviet Russia in 1920 still did not draw the state border along its ethnographical border. At times the government was not interested in question of the ethnic boundaries of Latvia, it was more important to sign the Peace Treaty as fast as possible. The Border contract with Russia caused losing the remarkable part of the Latgalian ethnographic territory Jūlijs Počs (in 2005 in the United Kingdom) writes that signing the contract between Latvia and Russia did not involve the representatives from the local governments of Latgale, the border was established without the local knowledge which could clearly point out the ethnographic borders of Latgale. Especially it is being criticized for the cession of the district of Drisa to Russia where 75 per cent of residents were the Latgalian speaking people. He mentions the authentic towns of Latgale border territory – Apodze (Opočka), Lelī Lūki (Veļikije Luki), Jaunvonogi (Novosokoļņiki), Austruve (Ostrova), Sorkonpils (Krasnogorodska).

On 11, August, 1920 in the Peace contract between Latvia and Russia determined de jure the borders of both countries. Dr. iur. Izidors Vizulis (USA) points out that the 2nd article of the Peace Treaty provides that the Soviet Russia acknowledges the sovereignty of Latvia and independence without reservations and abjures irrevocably from all rights on people of Latvia and territories, inter alia, was also the district of Jaunlatgale (Abrene) and 6 small rural districts. The fact is that in 1920 the local governments of Latgale had no saying in determination of borders with the Soviet Russia is proved by the documents of the historical archive of the state of Latvia, e.g., the fixed residents' complaints – “request to take a note the ethnographic provisions of the Latgale identity for drawing borders”,¹ the exile historians- researchers write about it and they express an opinion that opinion of the local governments and residents of Latgale was ignored in the determination of the border of the Eastern Latvia.

Hereby, for the frontier area local governments of Latgale the determining of the Latvia – Russia border appeared to be the problem in 1920, for example, for the district of Drisa where due to the slapdash attitude the decisions were made that caused later disagreements. Among the residents of Latgale the important preconditions were not observed: 1) the natives were not listened to, 2) there wasn't given a chance not to vote democratic on the motion of the realization of project, 3) the local cultural heritage – heterogenous culture, environment and language of Latgale were not taken into account.

From 1920 to 1925 there were determined the new borders of local governments of Latgale for towns, small villages and small rural districts observing the ethnographical and culture-historical principles in the region of Latgale. For many local governments of Latgale there were given the new Latvian names.

In the summer of 1925 the intensive work continued at dividing of villages,² because in Latgale there were planned to establish about 50 000 farmsteads. The work at dividing of villages and changing the borders of small rural districts³ carried on periodically, because it was important to develop the local government of administrative territories.

The Latvianization of the small rural district names was started by accepted the law on 17th, June, 1924 “On new division in districts of territory of Latvia”. The Parliament of the Republic of Latvia – Saeima assigns to the Ministry of the Interior to get in contact with the local governments of small rural districts and to eliminate identical, non-Latvian small rural district names. Many small rural districts in Latvia had similar names.⁴ Fulfilling the decision of the Saeima the Ministry of the Interior changed the names of small rural districts “choosing for them Latvian and well-

¹ LVVA, 3218. f. 1. apr. 292.1., 54. lpp.; 1922. gada 1. augusts.

Valsts Zemes banka, Nr.5810. Rīga, Nikolaja iela 1-5. Vēstule Ludzas apriņķa valdei.

² Jaunā Straume. 1924, 23. dec. nr. 38/39. 6. lpp.

³ Jaunā Straume. 1927, 8.sept. nr. 34. 1. lpp.

⁴ Lauku pašvaldību pārdēvēšana. Pašvaldības Balss. 1925. 219. lpp.

sounding names”.⁵ In Latgale there were too many small rural districts with non-Latvian names, because the names of the populated places once were exposed to Russification – they were given the names of the manor houses of the old Russian country noblemen, for example, Maļinova, Višgoroda.

The Rural bureau of the Local governmental department of the Ministry of the Interior defined the corpus of the commission who cooperated with the local governments. The local governments of Latgale were unresponsive and remitted a few propositions about the changing of names of the small rural districts. In this commission the important role was played by professors J. Endzelīns and P. Šmits; the commission together with the representatives of the local governments of districts there were convened 7 meetings to accept the most suitable names for the new local governments. The main task of the commission was to restore the old names of small rural districts and regions relating them to the local river, lake, upland⁶ place-name, instead of new-created names.

At that time for the most active officials of Latgale raised the objections against the commission's project, because the correctness of names did not conform to the Latgalian language. The Latgalian newspapers wrote: “Why the names are contorted and why are they not Latgalian”. Makašēni, Dricēni, Viļēni, Rēzna..... the sharp sounding names for ears. The local governments of Latgale also expressed their dissatisfaction. The fractions of the Saeima are receiving many protests about names of small rural districts and requests to retain the old names. In the Saeima the Latgalian fraction disputes the new project and decides to defend the local governments in Latgale. The deputies propose the changing of the names, and the deputy O.Velkme proposed to include the names of local governments in new project.⁷

For example, the board of the district of Daugavpils on 21st, April, 1925 reviewed the question of name changing of the small rural districts of the local governments; the recommendations were: to rename Mežmuiža as Trepe, Ungurmuiža – as Ungurdriva, Pustinas as the small rural district of Austrumi, Višķi – as Špogi,⁸ the members of the board voting for the names were divided. In another meeting the board of the district of Daugavpils proposed to rename the local government of Maļinova as Kolnoja, but once again there was no unanimity – some members of the board proposed to give the old Latvian region name “Jezupova”⁹ for the small rural district of Maļinova. To reach the understanding about names was the complicated process.

The commission working dutifully and listening to opinions of the local governments at the result prepared the project and submitted it to the Ministry of the Interior which

⁵ Ibid.

⁶ Lauku pašvaldību pārdēvēšana. Pašvaldības Balss 1925. 219. lpp.

⁷ Latgales pagastu nosaukumi. Zemnieku Balss.1926, 12. aug. Nr. 2. 4. lpp.

⁸ LVVA, 3723.f., 1. apr., 2763.l., 125. lp. Latvijas IM PD.Daugavpils apriņķa pašvaldības likvidācijas valdes protokoli 1925.gads, iesākta lieta -2. janvāris. 21.04.1925.protokols nr. 24.

⁹ Ibid

adopted it, and the list of new small rural districts was published in paper “Valdības Vēstnesis” (1925 Nr. 169.) The names of the new local governments had to be used starting with 1st, September, 1925. (see. Appendix.)

The questions of education and the Latgalian language usage in the local governments of Latgale were actual especially in the border regions. Many researchers such as M.Buksš, L.Latkovskis, B.Brežgo focused their attention to the research of the origin of populated place names and the second names of Latgale. L. Latkovskis stated “five different dialects”.¹⁰ The Latgalian literary standard existed from 1918 to 1940 in the districts of Abrene, Daugavpils, Ilūkste, Ludza, Rēzekne, Madona, Krustpils, Jēkabpils, Valka. In the 1920-ies the Peace contract defined the borders of the state of Latvia and in the property of the state of Latvia there were the town of Jaunlatgale (Abrene) and six areas of small rural districts. In 1925 there was established the district of Jaunlatgale and it was important to promote the Latvian the culture environment in this district.

The structure of the local governments in Latgale earlier was regarded as Zemstes which to a certain extent were responsible for distribution of duties and the society organizing; therefore in 1920 they were restructured into districts which had their own role till 1934. In January, 21st, 1924, the self-liquidation board of district of Ludza made a decision that district of Ludza must be divided into two districts.¹¹ Initially it was proposed that the town of Viļaka would be the new centre of the district, because there is a historical centre with manor house buildings where the administration of district can be situated, as well as good communication with small rural district of Gavra, Kačanova, Lipna, Bokova, Tolkova, Baltinava can be maintained.¹² In the next meeting discussing the historically important question on the choice of centre of the district Balvi was recommended as a centre based on the fact that in Balvi there are many buildings and cobbled roads.¹³ However, as a result of these discussions the department of local government of the Ministry of the Interior defined that centre of new district must be in Jaunlatgale.

“In district there were two towns Balvi and Pitalova (in translation – at Tālava- ancient state of Tālava) which from 1920 after the disposal of Latgale was called Jaunlatgale, later Abrene (1938)”.¹⁴

¹⁰ Briška, B.Latgaļu izplatība neatkarīgajā Latvijas teritorijā no 1918.–1940. gada, izejot no iedzīvotāju vairākuma lietotās valodas. Acta Latgalica –3. P/s Latgaļu izdevniecība.Vācija.Minhene.1970.,184. lpp.

¹¹ LVVA, 3723.f., 1.apr., 2853.l., 58. lpp. Ludzas apriņķa pašvaldības likvidācijas valdes sēdes protokols 1925. gada 27. martā.

¹² LVVA, 3723.f., 1.apr., 2853.l., 58. lpp. Ludzas apriņķa pašvaldības likvidācijas valdes sēdes protokols 1925. gada 27. martā.

¹³ Ibid, 60. lpp.

¹⁴ Kašs, P. Jaunlatgola vai Vaclotgola? Krāj.Acta Latgalica - 5. Minhene, 1974. 170 lpp.

On 28th, March, 1925 the unified meeting of Ludza and Jaunlatgale took place in which it was decided that the boards of administration of the local governments of district of Jaunlatgale would begin their work on 1st, April, 1925.¹⁵ The employee were adjourned to Jaunlatgale.¹⁶ Between the both districts the budget was being apportioned.¹⁷

In the meeting of the board of administration the chairmen of the small rural districts of Jaunlatgale (16, 18 September, 1925)¹⁸ the question on the development of education and national culture in the new district was discussed. Five local governments had borders with the Soviet Russia¹⁹ and Estonia and they came to a decision that in this frontier area the small rural districts would be encouraged to form associations, to organize libraries. The funding was needed for all these activities, therefore, the chairman of the board of administration F. Malnačš in 1925 pleaded for the department of local government to allocate the appropriate state benefits for schools with the Latvian language, then pupils would aspire to enter those schools and would learn there. In Jaunlatgale the Latvian schools were attended by 480 children.²⁰ From the government he requested 20 160 Lats because at least 180 pupils of the total number of 480 were poor, the aid would be distributed among them. For each pupil it was necessary to receive 10,00 Lats, in sum 180000 Lats, and the funding had to be allocated for the cook, nurse other technical staff salaries.²¹

On 21, August, 1926 the rural bureau of the government department of the Ministry of the Interior responded that the budget didn't include special expenses for pupils' free lunches in schools and for other national cultural purposes, but it promised to request the financing from the Cabinet of Ministers reserve fund. The request was sent to include free lunch expenses in the draft for the year of 1926/27.²²

In 1928 104199 residents lived in the district of Jaunlatgale and "in the district there were 118 elementary schools",²³ but in 1930 in the district of Jaunlatgale there was 1

¹⁵ LVVA, 3723. f., 1. apr., 2854.l., 75. lpp. IM PD. Ludzas apriņķa pašvaldības likvidācijas valdes protokoli 1925. gads. Ludzas un Jaunlatgales apvienotās sēdes protokols 1925. gada 28. marts.

¹⁶ Ibid.

¹⁷ LVVA, 3723.f., 1. apr., 2856. l., 23. lpp.

¹⁸ Jaunlatgales apriņķa pagastu apspriede. Pašvaldības Balss.1925.Nr 10./11. 434. pg.

¹⁹ LVVA, 3789.f., 1. apr., 80. lieta, 81. lpp. Jaunlatgales apriņķa pašvaldības pašlikvidācijas valdei raksts nr. 657. 1925. gada 27. maijā.

²⁰ LVVA, 3789. f., 1.apr., 39. lieta, 2. lpp. Sļepenie raksti. Jaunlatgale 1925. gads. Jaunlatgales apriņķa valdes priekšsēdētāja F. Malnača sarakste IM PD.

²¹ Ibid;

²² LVVA, 3789. f., 1. apr., 39. lieta, 2. pg., 75. lpp. Sļepenie raksti. Jaunlatgale 1925. gads. Jaunlatgales apriņķa valdes priekšsēdētājs F. Malnača vēstule Iešlietu Ministrijas Pašvaldības departamenta Lauku nodaļai.

²³ LVVA, 3789. f., 1.apr., 83. lieta, 157. lpp. Sarakstīšanās ar IM. 1928. gada 1. janvāris – 1928. gada 31. decembris. Jaunlatgales apriņķa pašvaldības likvidācijas valde rakstu kopojums Nr. 2. Vēstule LR Izglītības ministrijai.

high school, 137 elementary schools and 23 libraries with 16 017 large depository of books. For the frontier area the local governments of Latvia assigned huge financing for the road and railroad development, for building the station, the small rural district house, for education and social sphere.²⁴

The establishment of Registry office. Local governments of Latgale experienced a great dissatisfaction of the society that the local governments of Latgale for a long time could not to come to an agreement and to make a decision on the establishment of the Registry office defined the law “On enrollment of civil registration record” which was passed in the Latvian Constitutional assembly on 18, November, 1921. Until that in Latgale the registration of marriages, birth and deaths was performed by the churches. In 1922 there was published the instruction of the Ministry of Justice,²⁵ which defined that from 1922 in each local government there must be established the Registry office as a secular institution.

The part of the society of Latgale could not support the establishment of such an office, because there existed a conservative point of view that marriage, childbirth, death cases must be registered by churches. The Dominant there in Latgale was the Catholic Church, therefore, among the catholic priests there was loud protesting. If other regions of Latvia began establishing the Registry office after passing the law 1921, then in Latgale this period lasted till 1927 and 1929. The reasons were different, for example, in 1924 the local government of Piedruja reported the board of administration of the district of Daugavpils that “there are no eligible workers”.²⁶ In other local governments there were different reasons for not opening the Registry Offices. If in the district of Daugavpils the Registry Offices were opened without hurry, then in the district of Ludza it did happen protractedly. For example, the local government of the small rural district of Domopole did not fulfill the instruction of board of administration of district in 1924 of the 28th November where instructed to open immediately the Registry Office.²⁷

The board of administration of the district of Ludza on 20, January, 1925 analyzed why the small rural district of Domopole did not open the Registry Office. The council of the small rural district of Domopole did not obey the decision of the Ministry of Justice²⁸ and rejected the possibility of office opening. Eventually, the board of

²⁴ LVVA, 3789. f., 1. apr., 40. l., 90. lpp. Slepenie raksti. Jaunlatgale 1929. gads.

²⁵ Tieslietu ministrijas rīkojums (6.marts 1922. gads nr. 6611.)

²⁶ LVVA, 3723. f. apr., 2763.l., 33. lpp. Latvijas IMPD Daugavpils apriņķa pašvaldības likvidācijas valdes protokoli 1925. gads. Protokols Nr. 58. 1925. g. 30. okt, 3723.f. apr., 2763.l., 33. lp. Latvijas IMPD Daugavpils apriņķa pašvaldības likvidācijas valdes protokoli 1925. gads. Protokols Nr. 58. 1925. g. 30. okt.

²⁷ LVVA, 3723.f. apr., 2763.l., 33. lpp. Latvijas IMPD Daugavpils apriņķa pašvaldības likvidācijas valdes protokoli 1925. gads. Protokols Nr. 58. 1925. g. 30. okt.

²⁸ LVVA, 3723.f., 1. apr., 2854.l., 14. lpp. IM PD Ludzas apriņķa pašvaldības likvidācijas valdes protokoli 1925. gads

administration of the district of Ludza decided that the council of 22 people had to be brought to the trial for its resistance to the law enforcement in not opening the Registry office in the small rural district²⁹ until finally the board of administration of the district sent the lay magistrate of the district of Ludza to review the question.³⁰

The catholic mentality following the conservative traditions was expressed in the decisions of the local governments. The local governments were the mirror of the society, the ability of the local power to conform to new processes of the society development. Overall in 1926 in Latgale the Registry Offices didn't start their work. Complaints reached the IM PD and Rural bureaus,³¹ where employees were dissatisfied about the amount of work that had to be done directly by the Registry offices. The local governments of Latgale had to seek for different types of communication so that to set up the registry offices. Mostly they were rules, traditions of the church and conservatism that determined inability of the local government councils to make correct and objective decisions, because opinions of the politicians and superiors of the local governments of Latgale were committed to the Catholic traditions.

The principles of Ethics and structure model of the administration in the local governments of Latgale were developed according to the laws and with the support of the local society; thereby employees of the local governments founded a common system in their administration institution, with its language, traditions, hierarchy. In turn, the professionalism of employee's and their honest or dishonest behavior defined the work system of each local government and ensured its quality. The deputies were elected in the local governments elected, the acted on the basis of the political ethics, values and the basic principles of democracy had the determinant priority, but there were also serious mistakes made in model of the society values.

The employees of the local governments of Latgale expressed the apparent loyalty for the leading parties and their leaders. "The attitude of the employees of the local governments and their behavior formed the democratic system which could avoid the faults of state system,³² but the employees sometimes obeyed the power of the leading political party or interest groups and supported the individual interests of the politicians, that was one of the biggest minuses during the democratic period of the local governments' work in Latgale.

In the beginning of 1933 and 1934 the local governments in Latvia often sounded the opinion that the "leader" could eliminate the minuses of democracy and undesirable effects. The history proves that the real life often is moving away from the theoretical ideal. The

²⁹ Ibid.

³⁰ Ibid.

³¹ LVVA, 3723. f., 1. apr., 2854.l., 37. lpp. IM PD Ludzas aprinča pašvaldības likvidācijas valdes protokoli 1925. gads

³² Par vai pret demokrātiju. Pašvaldību darbinieks. 1934. gads. 41.-43. pg.

minuses of democracy in local governments were mostly related to 1929 to 1931 financial crisis. If democracy could not ensure the welfare of residents on the elementary level then at fault is not the democracy itself, but rather the behavior of the employees of the state and local governments. The honest action in any work place is a guarantee of democracy – these were ideas expressed among employees of the local governments.

Conclusion

From 1920 to 1934 the aims of the legal actions of the local governments of Latgale were to listen to the society, to agree on and to establish the administrative borders, to found the centers and give them names.

The most active members of the society of Latgale participated in the implementation of the local government self determination, they aspired to protect traditions of the Latgalian culture and religion, expressing their opinions in media and thereby keeping their identity.

In those local governments of Latgale (1920–1934) therewhere conscientious and honest politicians who together with local government employees worked for the sake of residents and ensured the qualitative services, kept cultural traditions and the Latgalian identity.

Appendix

In Latgale (Pašvaldības Balss. 1925. 439. lpp.)

In district of Daugavpils:

Grāveru pagasts – Aulejas,
Maļinovas – Naujenes,
Izabelinas – Skaistas,
Mežmuižas – Vīpes.

In district of Rēzekne:

Bikavas – Gaigalavas,
Vidsmuižas – Gaļenu,
Biržgaļas – Labvārža,
Rožentovas – Maltas,
Rozenmuižas – Rēznas.

In district of Ludza:

Janovelas – Brigu,
Eversmuižas – Cīblas,
Michailovas – Mērdzenes,
Zaļmuižas – Nautrēnu,

Posines – Pasienes,
Lanskorovas – Šķaunes.

In district of Jaunlatgale

Višgorodas – Augšpils,
Domopoles – Bērzpils,
Kačanovas – Kacēnu,
Tolkovas – Linovas,
Bokovas – Purvmalas,
Kokorevas par Tilžu.

In case of orthography were managed amendments, for example, instead of Borkova – Barkava, Izvolta – Izvalta, Kolupe – Kalupe, Rudzatu – Rudzētu.

THE FIRST INTERNATIONAL PIANO COMPETITION IN VIDZEME

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Abstract

Competition of classical music is an event where musicians come together to compete. **The aim** of the paper is to investigate the competition from the economic and cultural points of view and to elaborate the model for the international competition for young pianists as offering of the creative tourism. **Methods.** The data are obtained by using descriptive methods of analysis and reflection of self-experience. **Results.** Competition in Vidzeme is an innovative offer based on the relationship between culture, tourism and local economics. **Discussion.** Competition model is proposed for popularisation the wealth of the folk tunes of the Latvian piano music. **Conclusion.** Competition in Vidzeme is an innovative creative tourism offering.

Keywords: *piano competition, creative tourism offer, Vidzeme.*

Introduction

Every year thousands of concerts are given by pianists in the great concert halls of the world. Solo performance means a lot to the pianist, whether it is a small recital or an appearance in an important international music festival. It is a part of the professional life for young pianists aiming at an international career as a solo pianist.

Most young musicians have to spend many hours on piano training in music schools. The learning process never ends and the numerous festivals and summer master classes offered by the professional musicians are well attended. Young pianists have to meet fellow students, share their experiences and get acquainted with diverse cultural spaces.

Participation in and winning the international piano competition is another way to accomplish the professional career. Piano music researcher Gustav Alink argues that “there are thousands of youngsters aiming to become well-known concert pianists. Success in an important international competition may appear to be one way of achieving this goal; it is one way of gaining recognition and standing out from the mass of other pianists”. (Alink 1993:14)

The important motivation in creating a new piano competition is the commercial consideration. The organization of an international competition is not an easy task and it is important to maintain the perfect relationships with the local municipality, the regional media and sponsors. The studies and scientific conferences have been devoted to such question. The European Piano Teachers Association organized discussion on the subject in 1989, entitled *On the problems of International Music Competitions*. The Society for Musical Education held a seminar on the problem of competition in 1990, entitled *Competition and its effects on the training of the Professional Musician*.

The author of this paper has analyzed the concept of international competition of young pianists from the cultural and economic points of view. The theoretical conclusions stated that piano competitions stimulate the development of the young musicians' creative ability, to help them co-ordinate their areas of special interest, to enrich the efficiency of the study process and the acquisition of professional skills. (Luse 2001:155)

New piano competitions emerge regularly based on the traditional concept of eliminatory stages, the repertoire selection, the classification of laureates and the attractive prize money. The competition organizers have been looking for the original ideas and innovations in the competition circuit. **The aim** of the paper is to investigate the competition from the economic and cultural aspects and to elaborate the model for the international competition for young pianists as offering of the creative tourism.

Methods

The data are obtained by using descriptive methods of analysis and reflection of author's self-experience.

Competition as concept

The concept of competition is not a new one in the history. A music competition, according to the definition, is "a public event designed to identify and award outstanding musical ensembles and/or soloists. The European Classical art music idiom has long relied on the institution of music competitions to provide a public forum that identifies the strongest young players and contributes to the establishment of their professional careers" (Wikipedia, Music competition).

The concept of competition in economics is a term that "encompasses the notion of individuals and firms striving for a greater share of a market to sell or buy goods and services. Competition, according to the theory, causes commercial firms to develop

new products, services and technologies, which would give the consumers greater selection and better products” (Wikipedia, Competition).

Both definitions stress the main idea of competition as human activity to select preferable quality focusing on the choice. According to Alink, in the historical music competitions the aristocracy played an important role, often being the organizer and providing the venue (Alink 1993). Nowadays there are more and more people who decide to study the piano. This instrument is the most popular one and with increasingly better opportunities for international traveling, it is more attractive for youngsters to participate in an international piano competition. In China, three decades after opening up to the West (1979), 30 million of its children are now learning the piano. Music is seen as the great equaliser, an escape from the factory towns to abroad, and the piano has come to symbolise certain material success. (Pellegrini 2009)

There exist many different types of piano competitions. The concept *international piano competition* is deeply rooted in the musical world. Normally, the main competition is for piano soloists, and a special section is devoted to piano duos. Many competitions exist where no preliminaries are held; and after one round, the winners are announced. Several competitions are followed by a few gala concerts, in which the laureates present themselves once more. The competitions may offer cash prize money, a bursary or instrument.

Cultural tourism

Diversity of the local cultural resources is seen as part of the cultural heritage in attracting tourists and from the 1980s the cultural tourism progressed as a major source of economic development for many destinations. A study on the economic importance of culture by the Organization for Economic Co-operation and Development (OECD) indicated that in several European economies the value of the cultural industries was between 3% and 6% of the total economy: in United Kingdom 5,8%, 2003; in France 2,8%, 2003. (The Impact of Culture on Tourism 2009: 21)

There is growing convergence of culture, creativity and tourism as a factor in national and regional attractiveness and cultural tourism can be particularly important for rural areas since there are often few alternative sources of income. In Latvia such regions as Vidzeme the tourism authorities have been identifying and marketing clusters of heritage attractions, festivals of music, exhibitions and creative events or activities as tourism products. (Latvijas tūrisma mārketinga stratēģija 2010: 22)

This convergence does not happen automatically. It has to be managed because the tourism sector is largely commercial whereas the cultural one often has a non-profit ethos. A broader view of culture in tourism includes the performing arts (music, dance, theatre), the international competition for young pianists is attractive because of benefits it can deliver to community. Participants and visitors want to go to

destinations associated with particular famous people or events and they want to experience the sights and sounds. As Richard and Wilson emphasises, the creativity has become a more important element in the regional development strategies because:

- the rise of the symbolic economy privileged creativity over cultural products;
- regions have increasingly used culture as a form of enhancement and therefore need to find new cultural products to create distinction in an increasingly crowded marketplace;
- destinations which lack a rich heritage need to find new means of competing with those that do. (Richards, Wilson 2006: 1214)

International piano competition as creative tourism offering

Regions in Latvia are now actively developing their cultural resources and music is one of the means through which different identities are shaped and enter into the relational networks. The cultural tourism is one of the largest and fastest growing tourism markets and the creative industries are being used to promote tourism facilities in Latvia. (Latvijas tūrisma mārketinga stratēģija 2010:28)

The creative tourism as a form and the next stage of cultural tourism is different. It satisfies the human needs for self-actualization with a primary focus on active skill development. The creative tourism is based on experiencing, participating and learning. As Richards and Wilson argue, the creative tourism is a further development of tourism onwards more experiential forms of consumption, which emphasize the personal development. (Richards, Wilson 2007) The creative tourism engages the visitors in the authentic experience, with increasing interest for individuals to learn new skills, and participate in the creations of new cultural activities, thus creating a close link between the tourist, the local population and its cultural heritage.

Performing arts, music, dance, and theatre are traditional experiential forms of consumption. Classical music competitions and arts festivals often attract serious tourists, actively consuming the familiar sensory experience. These forms are also of interest in terms both of multiple uses of space and for market-based product development. (Prentice, Andersen 2003)

The creative tourism relies on the local cultural resources to attract visitors to a destination. The creative industries have been used increasingly to promote destinations and to increase their attractiveness. The unique local cultural offerings in arts, crafts, traditional technologies and artistic expressions represent supply factor for the creative tourism. According to G. Richards, creativity has emerged as an additional positioning device, following the large number of cities using culture to position themselves and performing arts festivals proffer sensory experience as part of a package of experiential modules, including those of thinking, acting and feeling. (Richards 2001)

According to paper author's personal experience as international piano competition contestant, the music competition for piano generally needs such conditions:

- an outstanding quality of piano;
- age limits for participants;
- repertoire requirements and timing;
- awards and prizes;
- competent international jury;
- evaluation requirements.

Results. Competition in Vidzeme as innovative offering

The *Janis Norvilis International Competition for Young Pianists* is set up as innovative creative tourism offering for sustainable local economic development. The mission of the *Janis Norvilis International Competition for Young Pianists* is to promote intercultural dialogue through music, to encourage contestants for performance of Latvian piano music repertoire, and to acquaintance with Vidzeme cultural environment.

In today's music world, the competitions afford aspiring young musicians an opportunity to be heard by critics. This event can be a highlight of a young pianist's growth. The task of the competition is to promote the professional knowledge and skills of young piano students and enrich their stage experience by offering the opportunity to perform on the excellent *Steinway D* piano in Madona Culture Centre. International piano competition in Vidzeme primarily is aimed at the young pianists, music teachers and parents wishing to enter competitions and utilize cultural resources offered by Madona.

The competition in Vidzeme is an event that begins with 60 candidates performing in two categories-piano solo and piano ensemble (piano duo or/and piano four hands). Competition is dedicated to promotion the riches of the folk tunes in classical piano music and to the 105th anniversary of Janis Norvilis (1906–1994) – Latvian composer, organist, pianist, music teacher and conductor. Innovative approach for competition in Vidzeme is realised in the repertoire selection and extension of contestants' age limits. (see Appendix)

The Madona Music School will provide the contestants with necessary practice facilities. The solo and ensemble groups are held twice daily at the Madona Culture Centre and Madona Music School. The candidates are eliminated by vote of the jury. The jury is comprised of internationally renowned pianists and prominent musicians such as *Albina Siksniute* (Vilnius M.K.Ciurlionis School of Arts, Lithuania), *Slawomir Wilk* (Stanislaw Moniuszko Academy of Music in Gdansk, Poland) and *Normunds Viksne* (Jazeps Vitols Latvian Academy of Music).

Vidzeme local cultural resources can maximize the attractiveness of Madona as a place to visit and compete. As M. Wikhal argues, the capacity to attract people by offering a good quality is of crucial importance for regional competitiveness and it is important not only to consider what makes people move to a certain region but also what makes people want to stay. (Wikhal 2002) The competition will include daily professional piano concerts, master classes and also time for contestants to explore Madona and participate in the creation of new cultural experiences-local ceramics workshop, the magnificent *Cesvaine Palace* and famous *Laima Spring* nearby the highest hill of Latvia – *Gaizinkalns*.

The presence of the international competition is a great cultural asset to Madona. According to results of examination the impact of culture on tourism both are linked because of their obvious synergies: “Local communities are beginning to come together to develop cultural products for tourism and partnership is essential. Public-private partnership is central in this co-operation process, notably to develop market-oriented culture products and to market these products to consumers”. (The Impact of Culture on Tourism 2009:11)

The *Janis Norvilis International Competition for Young Pianists* works in collaboration with several companies to enhance the quality of the competition for contestants, audience members and the general public. Latvian Radio 3 station *Klasika* has broadcast the competition winners’ performance. The competition is a product that relies on contributions from individuals, corporations, and the *Young Talents Foundation of Vidzeme* for funding. Larger donations are the essential source for sustainable growth of the competition and are recognized in publications and event programs.

The widespread cultural, economic and social benefits mean that the first international piano competition in Vidzeme has been linked to the rising local incomes and infrastructure improvement such as:

- creating opportunities for partnerships;
- popularising national music heritage;
- diversifying the local economy;
- creating jobs and businesses;
- increasing tax revenues;
- attracting visitors interested in regional history and cultural identity.

Discussion. Competition model in Vidzeme

According to author personal experience, the model of the international piano competition is based on subjective and objective components. The correlation between subjective and objective components of the competition model is condition for sustainable development between culture, tourism and regional economics.

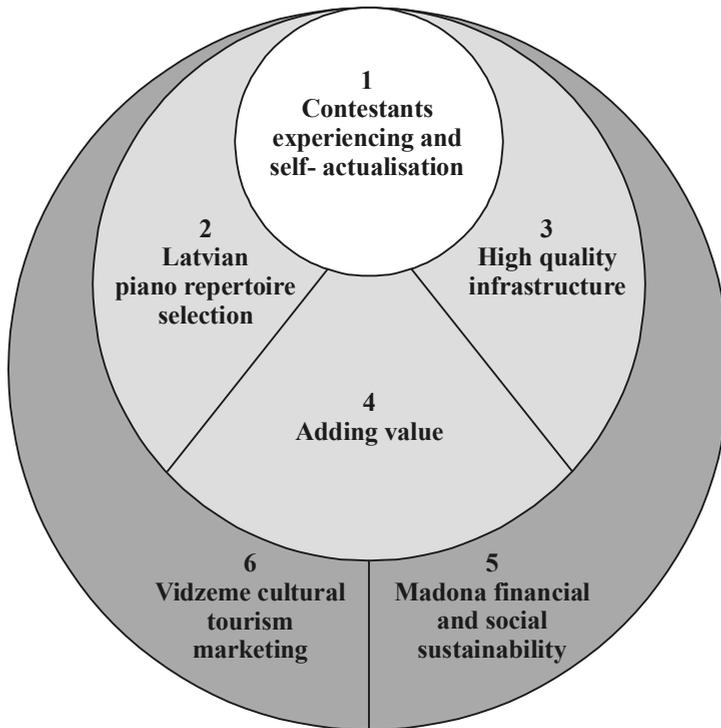


Figure 1. Competition model in Vidzeme as creative tourism offering (Luse 2011)

The competition model in Vidzeme works in the unity of two integrated parts—the subjective variable part and the objective invariable part (see Figure 1). The invariable part of the model is objective and includes the following:

- Latvian piano repertoire selection;
- high quality infrastructure;
- adding value;
- Madona financial and social sustainability;
- Vidzeme cultural tourism marketing.

Five objective components of competition model in Vidzeme have been measured by indicators such as the number of piano repertoire selection, service and technologies quality, contribution to creative community's development and word-of-mouth communication, local Madona cultural values preservation, number of branded new products for selling, market expansion and job creation, generation of incomes for the local population, developing cultural tourism products and rising awareness among Vidzeme communities on the importance of cultural heritage in its identity.

The objective components within the competition model in Vidzeme are supplied by and work in conjunction with such subjective variable part:

- contestants experiencing and self-actualisation.

In the variable part the contestant demonstrates the skills of his own performance and specific of individual interpretation. Within the model the contestant's self-actualisation creatively adopts the new experience and strengthens the individually inimitable signature of piano playing.

Competition model is proposed for popularisation the riches of the folk tunes in Latvian piano music. International piano competition contestants' experience needs a more detailed study on future. There are several problems to be addressed to theorists and practitioners for further researching:

- small number of Madona own production attracting international attention,
- insufficient number of marketing cooperation between competition and local tourism organisations,
- a weak culture media landscape in Vidzeme.

Conclusions

- 1) There exists the synergy between culture and tourism; and the international piano competition in Vidzeme as innovative creative tourism offering has potential for generating the local economic growth.
- 2) There are subjective and objective components within the competition model in Vidzeme as creative tourism offering.

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Appendix

JANIS NORVILIS INTERNATIONAL COMPETITION FOR YOUNG PIANISTS

Competition Rules

International Competition for Young Pianists is organized by the Janis Norvilis Madona Music School and the Young Talents Foundation of Vidzeme (Vidzemes jauno talantu atbalsta fonds). International Competition for Young Pianists takes place 27.–29.10.2011 in the Janis Norvilis Madona Music School and Madona Culture Centre, Madona, Latvia. International Competition for Young Pianists is dedicated to promoting the riches of the folk tunes in academic piano music genres, and is also a tribute to Janis Norvilis 105th anniversary.

Competition Aim

To promote the popularization of folk tunes and the accessibility of Latvian chamber music to the broader public, and enrich the development of the pedagogical traditions of academic piano playing.

Competition Tasks

- Promote the development of the academic piano playing skills for professionally orientated young pianists, in solo and ensemble playing.
- Diversify the pedagogical repertoire of academic piano playing with forgotten and lesser known pieces.
- Enrich the young pianists' stage performing experience.

Participation Criteria

1. Contestants' Groups

- 1.1. Debut Group, 5–6 years old.
- 1.2. Juniors Group A, 7–8 years old.
- 1.3. Juniors Group B, 9–10 years old.
- 1.4. Juniors Group C, 11–12 years old.
- 1.5. Seniors Group A, 13–14 years old.
- 1.6. Seniors Group B, 15–17 years old.

2. Competition Categories

2.1 Piano Solo

2.2 Piano Ensemble: Piano Duo or/and Piano Four Hands

3. Repertoire

3.1 Piano Solo

3.1.1. **Debut Group** all played from memory and no longer than 3,5 minutes in total:

- 2–3 contrasting pieces on folk tunes native to the participant OR 2–3 contrasting pieces on folk tunes by Janis Norvilis (1906–1994) *Dziesmu Druva* (source for music scores www.madona.lv/lat/?ct=ppfyp).

3.1.2. **Juniors Group A** all played from memory and no longer than 5 minutes in total:

- 2 or more contrasting pieces on folk tunes native to the participant OR one by Janis Norvilis *Dziesmu Druva* (source for music scores www.madona.lv/lat/?ct=ppfyp) AND one contemporary piece on folk tunes, Latvian or native to the participant,
- 1 study for left hand technique.

3.1.3. **Juniors Group B** all played from memory and no longer than 8 minutes in total:

- Variations on a folk tune OR several contrasting pieces on folk tunes native to the participant OR one by Janis Norvilis *Dziesmu Druva* (source for music scores www.madona.lv/lat/?ct=ppfyp) AND one contemporary piece on folk tunes, Latvian OR native to the participant,
- 1 study for left hand technique.

3.1.4. **Juniors Group C** all played from memory and no longer than 12 minutes in total:

- Variations on a folk tune OR several contrasting *Paraphrases* from op. 29 OR op.32 by Jazeps Vitols (source for music scores www.madona.lv/lat/?ct=ppfyp);
- 1 baroque period piece;
- 1 virtuoso concert style (programmatic) etude by A. Arensky or F. Burgmüller, or A. Diabelli, or I. Moscheles, or M. Moszkowski, or E. MacDowell, or E. Neupert, or L. Rozycki.

3.1.5. **Seniors Group A** all played from memory and no longer than 15 minutes in total:

- major composition on a folk melody (e.g. Ballade or Fantasy, or Paraphrases, or Rhapsody, or Variations);
- 1 OR several, OR a set of baroque period pieces;
- 1 virtuoso concert etude.

- 3.1.6. Seniors Group B** all played from memory and no longer than 25 minutes in total:
- major composition on a folk melody (e.g. Ballade or Fantasy, or Paraphrases, or Rhapsody, or Variations) or a participant's original composition on a folk melody;
 - 1 or several or a set of baroque period pieces;
 - 1 concert etude;
 - a piece of participant's choice.

All pieces must be published, except Seniors Group B participant's original composition, the score of which must be submitted to the jury prior to performance.

3.2. Piano Ensemble (Piano Duo or/and Piano Four Hands). Played from music or from memory. A combination of both forms of ensemble (Piano Duo, Piano Four Hands) in one program is possible. The **Juniors Group B** in Piano Ensemble is opened to participants from 8 years of age.

3.2.1. Juniors Group B no longer than 8 minutes in total:

- 2 contrasting ensemble pieces on folk tunes;
- 1 or several pieces of participants' choice.

3.2.2. Juniors Group C no longer than 12 minutes in total:

- major composition on a folk melody (e.g. Ballade or Fantasy, or Paraphrases, or Rhapsody, or Variations);
- 1 or several pieces of participants' choice.

3.2.3. Seniors Group A no longer than 15 minutes in total:

- major composition on a folk melody (e.g. Ballade or Fantasy, or Paraphrases, or Rhapsody, or Variations);
- 1 or several pieces of participants' choice.

All pieces must be published

Prizes

Competition foundation prizes for laureates: *Janis Norvilis Prize, Juris&Regina Lusis Prize, Alternative Jury's Prize, Public Prize*, diplomas, winners' performance on CD with photo, program on Competition laureates broadcasted on Latvian Radio 3 station *Klasika*. Laureate's absence on the *Winners' Concert and Award Ceremony* without an important reason leads to loss of the awarded prize.

Application

Please fill in clearly the *Application Form*. Until 30.09.2011, contestant's *Application Form* and TWO other documents must be scanned and e-mailed as attachments to madmuzskola@apollo.lv

- clearly filled in and signed *Application Form*,
- contestant's birth certificate,
- proof of application fee payment.

The application fee of 40 EUR is to be paid to:

Vidzemes jauno talantu atbalsta fonds Reg. Nr. 4008028780

Address: 16 Blaumana, Madona, LV-4801, Latvia

Indicating contestant's name and surname. All bank charges are to be paid by the applicant.

SWEDBANK Address Balasta dambis 1a, Riga, LV-1048, Latvia

IBAN: LV87HABA000140J041618

BIC/SWIFT: HABALV22

Additional

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EXPLORING PRE-CONCEPTIONS THROUGH PROCESS DRAMA: A HEART OF STONE

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Abstract

In this abstract I would like to present process drama method, my research area and suggest personal opinions as to why this way of talking about sustainability is holds potential. It is an invitation to take part in process drama workshop.

The roots of Process Drama are located in the UK drama in education tradition. "It originated as a form of practice in schools and theatres but quickly moved beyond these in to a wide range of formal, informal and non-formal settings. Distinguishing features include the ways in which everyone can join in the drama and participants are encouraged and challenged to watch, think and do. This is often done through the active participation of the practitioner in role and as an active co-creator, shaping the unfolding drama collaboratively with the participants. The drama is launched through a pre-text, a deceptively simple metaphorical frame work that provides a rich excuse for dialogue communication and critical reflection. The educational potential of the form lies in the way in which it allows for shifts in understanding." (Owens 2006).

In terms of methods' classification process drama is part of social and applied drama. However, as Nicolson states : "For me, therefore, interesting <...>nor in creating strict definitions of what applied drama or applied theatre might be, but rising questions about what is meant by the word 'applied', to what or whom drama and theatre might be applied, and for what reasons, and whose values the application of theatre-making serves and represents." (Nicolson 2005: 5)

Applied drama often talks about our daily life, about simple and essential to everyone things as a friendship, ethics and moral, decisions making. The circle of ordinary activities during the workshop, like doing, observing and reflecting, helps us to understand ourselves and the point where we are in our social life. The diagnosis that often surfaces is, 'It could be better'. So, the second step is up to us as participants and citizens.

The active power of social drama is clearly described this diagram.

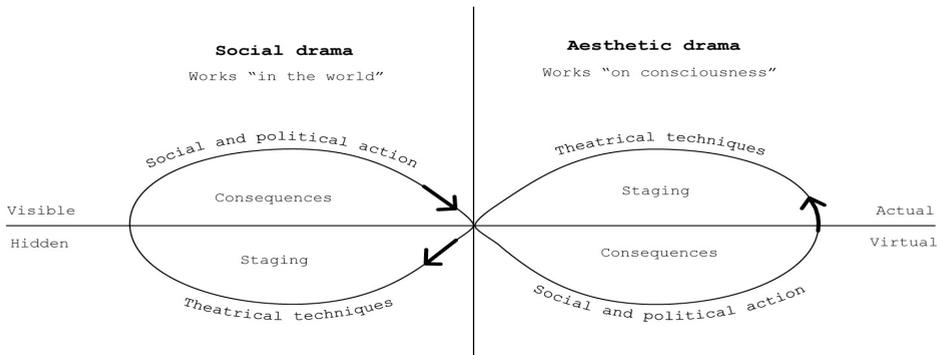


Figure 1. The social drama (Mckenzie 2001: 67)

The visible social and political actions, which really work in the world, are an inspiration to my research, currently titled, *'The use of participatory drama methods in a sustainable business context: an investigation'*.

Motivation for the research came from my work experience. As a drama educator I have extensive experience of the power of drama methods impacting on the values of young people. 'Participatory drama methods draw on intuitive, non-rational and divergent operations. Using drama in professional settings to harnessing the potential of both ways of thinking can provide the means of reducing the gap between words and actions.' (Owens, 2008) My target group is business people, chosen because of the considerable impact they have in all sectors of society. The number of business organizations declaring CRS recently is growing, though the reasons for doing so are different. The focus of the research is on the use of drama to promote sustainable ways of thinking and acting, to allow for or find the way for changes in thinking. The ethical dimensions of the study will be significant.

I am delighted to invite into workshop all that are looking for creativity and innovation in education. The pre-text for the workshop is a story 'A Heart of stone' by W. Hauff. I strongly believe the message sent using an art affects our feelings and minds more efficiently. All names of characters, except two forest souls, e.g. The Little Glass Man and The Giant Mike, can be and should be created by participants. It can give very interesting discourse and may be ideas for reflection.

Key words: *Creativity-sustainability-business-participatory drama methods-awareness.*

Introduction

This article introduces one framework of process drama workshop. We believe, the workshop is the most safe place to think, understand and reflect why sometimes the best ideas, based on deep researches in real life do not work. Process drama can be and is as a simple case study; reflections and shearing our opinions can be extremely useful to professionals all branches.

Process drama workshop is something in between of theory and practice, a discourse from academic thoughts to reality, ordinary daily life, in which all of us make decision more often than we realize it.

The aims of this workshop are to focus on several questions:

- How do our daily wishes link to sustainable life?
- Are we acting according our wishes and desires?
- What gives us happiness?
- Can help ourselves?
- Can someone help us?
- Do we realize which help is 'good' or 'bad' for us?

New questions often rise during the drama workshop. This is extremely useful as it gives an opportunity to find and discuss totally different perspectives of understanding of sustainability.

We appeal to definitions of sustainability:

- we consider the balance between reservation of environment, economical development and acceptable conditions of life;
- there are no right or wrong questions, situations or behaviours in process drama, only a process of doing, thinking and reflecting.

The Cold heart

Script of process drama workshop based on the story by W. Hauff 'A Heart of Stone'.

Accents and focus

Drama artistry	Social skills and abilities	Special focus areas
<ul style="list-style-type: none">• Concentrate• To believe in given situation• Perform small roles; create them in a voice, move and try to get best result	<ul style="list-style-type: none">• Work in a group• Try to understand each other• Tell your wishes, motivate them• Understand other persons wishes	<ul style="list-style-type: none">• Motivation of wishes 'There is a need to know what to want'.

Tools:

- A1 format paper,
- markers,
- sticky tape,
- prop-bag with money,
- glass stem,
- dialogue of Glass Man`s and *Peter`*s

Warming up – dynamic for the beginning

Names exercise.

Participants make a circle.

The aim of exercise is to introduce himself and to remember as much as possible names of group members, e.g.:

Hi, I am Rita.

Person next to Rita says:

Hello, here is Rita, and I am Jonas.

The last one in the circle should to say the names of all members and his one – at the end.

The importance of dynamic games is described by Owens & Barber: “Played together to focus attention, calm down or wake up, to reinforce, or make concrete concepts, to reveal the game structure found in situations.” (Owens & Barber 2001)

Pretext

Once upon a time, there lived in the Black Forest a widow – women named *Barbara Munk**. Her husband was a carbon-burner, and after his death she taught one`s sixteen years old son *Peter* to follow his father's calling. The young, slim boy that work, actually, liked, because near alive father head, he nothing even done, just whole weeks was sitting near smoky fire or all sooty was carrying carbon for selling. But carbon – burner has a lot of time to think about him and others, so then boy was sitting near the fire, dark forest trees and timeless forest silent for him wagtail some mind-bending nostalgia. At last he understood who is guilty: it was his life. “Sooty, alone carbon – burner!” Said young man for himself. “What flimsy life! How much honor has glassworker, watchmaker or even musician, especially at holy evenings! And me? When I come, valid washed, swiveled, putted on best fathers costume, with silver button, with new red sox, then somebody saw me from back side thinks: What is this fabulous man? But then they saw me from the front side, of course, thinks: “Oh, it`s that carbon burner!””

Now the participants are asked to name character of young *Peter* using following exercise described by Owens & Barber (2001).

Role-on-the-wall

Draw around a student on a large sheet of paper and use the outline to represent a character in the drama. Facts or characteristics known or perceived are drawn around or in the shape. It can be useful to contrast the 'outer' impressions with the 'inner' truths which are represented so graphically. Individuals can play this collectively agreed-upon figure.

Pretext

Rafters in the other side of the forest also made him jealous. Them, that forest giants, with a beautiful clothes were driving past, curse in Dutch and smoked pipes, he thought, that there is no luckier man then rafter. And then sponged full handful if gulden, he sadly went to his shanty. He sow on his eyes, how that lucky mans playing dice lost more, then his father earn too all year...

But there were three of these men he envied very much, though he was not sure which of them he envied most. One was a tall fat man with a red face, and he was supposed to be the richest in the district. He was called "*Big Ezekiel*", The other was the tallest man in the forest, he was called "*Long Solomon*", and he was very friendly with all the most prosperous villagers, and took up more room in the inn than even a stout man, for he spread both elbows on the table, and no one dared to complain, for he was too rich to offend. The third was a handsome young man, a splendid dancer, who was nicknamed "*the King of the Ball-room*". He had been apprenticed to a woodcutter, and now seemed to be very well off. Some said he had found a pot of gold beneath a fir-tree; others thought he might have fished up a sack of gold out of the Rhine on one of his voyages. But all the same, he was evidently a rich man, and treated by old and young as if he were a prince.

Now would be good to remember our childhood wishes 'To be like...' or may be some story we ever have heard about wishes to be like someone for whatever reason. The participants talk in pairs shortly and after that voluntaries are asked to share ideas with group.

It is true they all had one fault which caused them to be disliked. They were terribly conceited and inhuman parsimony. But then they had so much money, it seemed as if they shook it off the trees. No one else had so much to squander.

Clearly being unhappy for his life, Peter thousands times were looking for a chance how to get rich.

Question to all: how could our young man to become rich? All expectations are written on the paper.

But all that possibilities looked not good enough for him.

While *Peter*'s father was alive the neighbours often came to visit him, and they used to talk about rich people and how they got their money. In all these tales always were mentioned two forest souls, The Little Glass Man and The Giant Mike. The Little

Glass Man helps to person born on Saturday between 11 and 14 o'clock. Luckily Peter was born in the right time! However The Giant Mike helps to everyone.

Question to audience: to who will go Peter for finding a help firstly?

We will use simple exercise 'Either/or' from the book Owens & Barber (Owens & Barber 2001). We ask the group to choose between two options which in effect divide the class in half, e.g. 'If you think you would rush and get help, sit on the right of the room. If you think you would attempt a rescue yourself, sit on the left.' This is useful for managing the drama and creating two audiences. Most importantly, it gives the group the opportunity to see that they can determine the direction of the drama. This had to be true, as they all may decide to set on one side of the room and developments accordingly take place from there.

In our case on the floor using sticky tape there a sign is made 'Line of decision'. Participants who think *Peter* will go firstly to find The Little Glass man, other side – To Giant Mike. After choosing position participants are asked for short comment why they have made exact this decision. One side called

According majority rule of our participants our young Peter firstly went to find The Little Glass Man. This meeting is very important in our story, and two voluntaries are asked to play this dialog in very simple way.

Peter looked round, and underneath a beautiful fir-tree sat a little old man in a black waistcoat and red stockings, with a large hat on his head. He was smoking a long pipe made of blue glass, and as Peter drew near to him he noticed that coat, hat, and shoes were of coloured glass, and it seemed as if the dwarf was still rather hot, for at every moment he mopped himself with a pocket-handkerchief.

Peter. (*bowing low*) Yes, Treasure-master. You have indeed been good to me; and I thank you very much. I have come to ask your advice. A charcoal-burner's life is a dull one, I cannot make money quickly, while Ezekiel and the 'Dance-king' seem to coin it like hempseed.

Little Glass Man. (*earnestly and puffing at his pipe*) *Peter*, do not talk like this. You must not neglect your work.

Peter. (*blushed*). No, dancing is all very well, but you cannot blame me if I wish to improve my position. A carbon-burner's is not much of a life; and glass-blowers and timberers seem to have a much better time.

Little Glass Man. You are a discontented lot, you men! If you were a glass-blower, you would want to be a timber merchant; and if you were a timber merchant, you would want a still better position. However, it can't be helped! If you promise me that you will work hard, I will help you to get on, *Peter*. I give every Sunday child three wishes. The first two are free, the third I can refuse if it is a foolish wish."

Peter. *(cried)* Hurrah! You are a splendid little man! Now I can have whatever I want. So I will first wish to dance better than the King of the Dancers, and to always have as much gold in my pocket as *Big Ezekiel!*

Little Glass Man. You young stupid! *(exclaimed the dwarf)* What an idiotic wish! You ought to be ashamed of yourself. What good to you and your poor mother if you dance well? I will give you one more free wish, however; see you chose worthily.

Peter. *(scratched his head, and after some deliberation)* I should like to have the best and most complete glass factory in the forest, with sufficient means to work it well.

Little Glass Man. Nothing else, *Peter?* Nothing else?

Peter. Well, you can also give me a horse and carriage.

Little Glass Man. Oh, you stupid boy! Horses? Carriages? Wisdom, I tell you, prudence, and intelligence are what you should desire, not horses and carriages! But, though I am much disappointed in you, your second wish is not altogether foolish. A good glass factory is worth having; but if you had intelligence and prudence, the carriages and horses would follow as a matter of course.

Peter. But, Little Glass Man, I still have a wish to spare; so I could use that and desire the prudence you think so important.

Little Glass Man. No, not yet; you have to pass through many experiences before you get the third wish. Now, make haste home! Here are two thousand florins, more than enough for you. And don't come here again asking me for money, or I will hang you to the highest tree. Three days ago old Frederick, the owner of the largest glass factory in the forest, died. Go to-morrow morning to his widow and make a fair offer for the business. Be industrious and careful. And listen to what I am going to say. Beware of the village wine-shop, it is a good friend to no one!

The little man, as he was speaking, drew out a fresh pipe, filled it with chopped fir-cone, and began to smoke. When it was well alight, he shook Peter kindly by the hand, gave him full directions as to the way, and disappeared in a cloud of smoke.

Reflections

Now is time to rewind our starting questions:

- How our daily wishes link on sustainable life?
- How we are acting according our wishes and desires?
- What gives us happiness?
- Do we can help ourselves?
- Does someone can help us?
- Do we realize which help is good or bad to us?
- How aware we are?

For the further reflection we would like to offer few statements of Zygmunt Bauman, one of the most significant global social thinkers of our age. The statements are based on opened lecture ‘Selves as Objects of Consumption’ in Vilnius September 2010.

- 2,5 million inhabitants of our planet live less then 2 \$/day.
- If we want to raise living standards all poverty-stricken regions to level of Europe or North America, we need 5 planets like we have our one.
- The main point – we have to change our point of view and behaviour of every day. For it we need reduce consumption at least.

Conclusion

It sounds surprising, but there is no formal conclusion after the drama workshop. In the best possible way the participants and workshop leader face new questions. There is the possibility of ‘significant flashes’ in awareness and responsibility for participants working in all fields including education, business, culture, health service, but also as parents, relatives, neighbors, etc. As a drama educator I can confirm that the power of drama methods in making an exceptionally sharp impact on the values of young people. At the same time my experience is that adults are dramatically inert in many ways.

Robinson (Robinson 2006: 202) found, that:

At the head of the new strategies that are needed for business and for education there must be a new concept of human resources. This is where the ideas about intelligence and creativity that I have developed in this book are pointing. It is fundamentally a question of ecology.

The current situation creates several closed circles. On the one hand, adults make decisions, which are often very rational, logical, but often narrow minded. The Secretary of *Club of Rome* Ian Johnson in his speech at the United Nations commented, that:

Economic growth and measurements of economic performance has been built upon false assumptions; incorrect metrics and an illusion that growth, wealth and well being meant the same thing. (Name and date)

On the other hand, despite a large body of information, plenty of research, conferences and innumerable speeches, the issue of sustainability remains on a theoretical level only, concerned primarily with talk rather than action. The gap between teaching and reality can often open up even with the best of intentions. What I say, what I think I do and what I actually do often remain distinct. Young people seem able to maintain strong enough attitudes towards a more sustainable life despite the hostility faced on many levels they form a kind of ‘critical mass’; however one day they will ‘grow up’ and face the real possibility of suddenly becoming themselves, inert adults . If I as an adult do not keep on trying by all methods available (in this case through drama) to

reduce that gap between teaching and reality, can I ever legitimately wonder why the form of education I engage in is not working?

What methods are you using to reduce this gap?

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ART AND THE MARKETPLACE: NEW YORK VANGUARD IN THE 1960s

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Abstract

The New York art scene of the 1960s is a show-case of the impact of a rapid economic development on the artwork, artists and creative output. On one side there is technological progress, scientific discoveries, on the other consumerism, mechanisation, standardisation, loss of any traditional values.

The proliferation of various artistic practices can be regarded as an attempt to visually and, also in an increasingly conceptual way deal with the new and rapidly changing situation. At the same time they give an already highly awaited answer to the art market demand for innovative work, a “future in the present”. Vanguard artists like Claes Oldenburg, Andy Warhol, Robert Smithson, Donald Judd and Dan Graham respond, react to, question and criticize the evolving situation in art practice itself, as well as in the whole cultural field and society in general. The wide-ranged and visually multilingual response to life as an actuality, leads to various directions in the evolution of the creative Process, resulting in multiple avant-garde styles instead of one. The one common thing is that they all are reflecting on the system they themselves are part of, as described in Guy Debord’s ‘Society of the Spectacle’.

The phenomena of “Flatness” and “Horizontalty” deserve special attention, reflecting upon a society gradually losing its vertical axis. The art of the 1960s, being the transit point between Modernism to Postmodernism sets questions and gives away signals that are fully relevant up to now. Why art is not another commodity, or is it? The time lapse between New York then and Riga now is fifty years, but the answers present day Latvian artists may give to the queries of the vanguard American artists of the never-aging sixties deserve a closer examination, as well. Transient or eternal, marketable or out of reach to anybody, flat or multidimensional, are there any restrictions for contemporary art practice? Should the development of creative industries be considered more important and fundable than individual artistic practice? The possible answers, as well as examples from further years of art evolution, both, taking into respect or quietly ignoring the artistic discoveries made in a decade decisive for present day art will also be part of the critical focus in this report.

Keywords: *Vanguard Art , Consumerism, System, Commodity, Flatness, Horizontalty*

Introduction

The New York art scene of the 1960s represents one of the crucial turning points in the history of contemporary culture and art practices as such. As a show-case of the impact of a rapid economic, scientific and social development on the artwork, artists and creative output, since the very beginning this revolutionary decade marked by the spirit of protest has provided a lot of material for critical debate, and re-evaluation, manifesting in voluminous theoretical output and heated discussions. On one side there is the technological progress, scientific discoveries, on the other massive consumerism, mechanisation, standardisation, loss of any traditional values. Being a consistent reference point at times of artistic uncertainty, like these last two decades of art history, this period in the mid-20th century also was the momentum to reinvestigate all the existent rules that define the perception of art, as well as its making in the way we know or had known it.

By examining the problems of traditional versus avant-garde, horizontality versus verticality, and the relations of art to market, this research aims to critically examine the possible role of art in contemporary, post-modern society, and also in present day Latvia. Looking at art and art-making as a potential catalyst for a general rise of awareness in society, regarding the things we take for granted, the attempt, in this report, has been also to achieve a deeper, and, at times, quite critical insight in the relations between art and public sphere, the agora or the marketplace. For research purposes, a wide-range direct study of artwork has been conducted, using the museum and privately owned collections accessible world-wide: Dia: Beacon, New York, Pompidou Art Centre, Guggenheim Bilbao, Portland Art Museum, the Daimler Contemporary, Berlin, etc. The conclusions drawn are also informed by other theoretical research from the 1960s up to the present day (Roland Barthes, James Meyer, James Elkins, Nicholas Bourriaud) and theoretical writings by visual artists (Robert Smithson, Donald Judd, Guy Debord).

The methods used for this analysis are:

- the comparative description method, mainly based on the comparison of selected visual data;
- the isomorphic method, examining and drawing parallels between multiple fields;
- a hermeneutic approach, based on the re-reading and re-interpretation of the existing material e.g. facts/data/information and considering artwork and the cultural context in which it was produced itself a language or text, has also been a predetermined necessity, when researching and discussing an art decade (1960–1970) so crucial for understanding the further developments in the art-world, especially, in the so-called ‘first-world’ countries (USA, United Kingdom, Germany, France,) yet, despite its popularity in western scientific

circles, still remaining relatively obscure and underestimated in Latvian major art research centres, university programmes and public art discourse.

In the Soviet Era, when parts of the world were subject to the ideological experiment of making Communism a reality, the global art scene was also split by both the actual and the nominal Berlin Wall, which, understandably, has led to certain difficulties in determining the importance of the art events and other cultural products on one side of it, for those residing (and 'reading' these events) on the other side, and having next to no direct experience of the cultural context in which those works have been produced originally (e.g. Boom-generation consumer culture vs. early Do-It-Yourself strategies, originating from the lack of available commodities vs. the very same strategies used as a form of revolutionary protest,) which would allow a phenomenological or empiric study of the period itself, not only the artwork reflecting it.

Therefore, one of the main objectives for this research has been also a necessity to prove the relevance of the conceptual discoveries made and artistic strategies taken in those decades back in the West, to the situation and events in the present day Latvian art scene, deeming that without fully examining and recognizing the roots of Post-Modernism the Latvian Art scene might not be able to develop to its full capacity, as many of the artistic discoveries and principles established back in those days in places beyond the "Iron Curtain", have set most of the rules that make art Art, nowadays, as well as govern the Contemporary Art Market and its strategies. It would also be necessary to insist that without a closer study of them (which not always would mean the same as down-right acceptance) Latvia might always run a risk of becoming just another state at the Eastern border of EU having a beautiful cultural past, but lacking true access and give birth to major art events in the present. It could be also suggested and argued that some of the choices the American artists made back in the 1960s, turning New York in a major cultural centre, as a result, are quite similar to the choices Latvian artists have to make now, when Latvia has had as though free access to the global art scene for past twenty years, already.

Results and discussion

A closer study of the years between 1960 and 1970 shows, that events taking place on the New York vanguard art scene in the sixties of the past century, roughly, may be grouped in two parts: those speaking of the global flattening of life and directly referencing the visible reality as one of fast food, technology power, easy money and constant changes (demonstrated, for example, in the work of Pop artists like Andy Warhol, Claes Oldenburg, Ed Ruscha and Hyperrealist Duane Hanson), and those primarily addressing the inner implications of these processes: estrangement, agoraphobia, mechanization and loss of a creative approach in every-day actions (for example the Minimalists, like Donald Judd, Carl Andre, Sol Le Witt, Conceptual artist

Lawrence Weiner and Post-minimalist Richard Serra). The proliferation of a multitude of different working-styles could be read as a reaction or attempt to deal with a completely novel political, cultural and social situation, where there are not too many tried-true paths to choose, as yet. If we try to look deeper in this reaction, though, it seems a lot less idealistically motivated, because many art historians see the avant-garde styles of the sixties or rapid changes in the work of certain art-makers also as a market tendency, perceiving artists as ‘crowd pleasers’ of sorts, satisfying the craving of the increasingly consumerist public for something new, although artists, other than the major Pop Art movement figure Andy Warhol, themselves would probably disagree with that. “Most artists are born opinionated, but Andy was like no artist I had ever met, because he was for everything and nothing at the same time,” states one of his fellow Pop artists Ed Ruscha. (ed. Phaidon 2006: 237)

In a rapidly growing liberal market economy where things are all measured by their market value, there is not much room for the Vertical, unless it is well packed, tagged, priced and integrated in the monetary value system. This being valid, of course, if by ‘Vertical’ (V) we understand the multi-layered, multidimensional, uplifting and spiritually saturated aspects of life, countering the onslaught of the every-day dictum and general hegemony of the mundane in all aspects of human existence or, in other words, ‘the Horizontal’(H). These terms should also be understood in their geometrical sense, V denoting any process going higher or deeper, and H the one staying on the surface of things, remaining shallow, even one-dimensional, yet spreading wider.

The things paid for by private collectors, the state, cultural institutions, etc., in a way, dictate the things painted or made in general, and this is true not only for 20/21st century art. Yet, on the other hand, artists always have been ‘system sensitive’, and unable to accept horizontal systems at their face value, without offering their own ‘rules of the game’, refusing to take things for granted and establishing other value systems when necessary, and also, in the case of New York Vanguard, opening up new fields for reflection, examining the very essentials that dictated the *modus vivendi* of a society becoming increasingly more consumerist. “Art in the period of its dissolution, as a movement of negation in pursuit of its own transcendence in a historical society where history is not yet directly lived, is at once an art of change and a pure expression of the impossibility of change. The more grandiose its demands, the further from its grasp is the true self-realization. This is an art that is necessarily *avant-garde*; and it is an art that *is not*. Its vanguard is its own disappearance,” reflects the French artist and thinker Guy Debord exposing in his seminal work ‘The Society of the Spectacle’, amongst other things, also the principle of self-destructiveness embedded not only in all other fields of existence apart from art, but also art itself. (Debord 1995: 135)

Could the Creative Process and the Avant-garde artistic practices be expected to stay immune against the all-pervasive influence of the general rules of the ‘Spectacle’, as well as critically show its vices in multiple media? According to Debord, art has also

become part of the system governing peoples' minds and actions, namely, one other entry in the 'Spectacle's' long list of commodities. As exemplified by the work of artist Sol LeWitt, everything can be looked upon through the rectangular frames of white grid-like structures, and the results of this type of perception are not manifesting somewhere completely beyond reach, in distant places of our planet, they show here and now, in urban architecture, in the bureaucratic procedures affecting the very possibility of any artistic output in institutional context, and, quite profoundly, in every-day communication and a loss of humanity in general.

It is necessary also to remark that every art movement as soon as it has been 'canonized' and validated by the critics and general audience runs a major risk to become reactionary and part of the system the newer art movements struggle against. Both the re-evaluation as well as a light-minded discard of the existent traditions being characteristic to Post-Modernism, has its roots in the un-spoken belief that the Avant-garde or, simply, New Art, might show a way out of the complicated situation art (and culture) finds itself after the complete value crash that marks the development/ progress of the Western liberal democracies after the revolutionary events of 1960s, well into 21st century and up to the present day. "Foreclosing the fiction of pure exteriority of the classic avant-gardist work, minimal practice inhabits and resists the world simultaneously. To claim that minimalism merely reproduces or emulates its social setting is to misconstrue its negative posture, the dialectical nature of its critique," argues American art theorist James Meyer, being one of the many to observe the actual impossibility for a truly vanguard stance in the society of the day. (Meyer 2001:188)

"In the Age of the Feuilleton (..) there was no pleasure and no honour in being a scholar or writer. Scientific research that did not directly serve the needs of power and warfare rapidly sank into decadence. The same was true for the whole educational system. History, which each of the leading nations of any given period referred exclusively to itself underwent fantastic simplification.", to cite the German writer Herman Hesse, evidently universalizing the events taking place in the between-war Germany of last century, and anticipating some of the major changes in society that were yet to follow, in his futuristic novel 'The Glass Bead Game'. (Hesse 2000: 334) This novel may be viewed as a cultural fact, a direct evidence of the cultural phenomena and worries of a certain era to which the writer belongs. The Bead Game, itself a thoroughly post-modern concept, involving more of arranging than creating, according to the book, was the prevalent art form remaining, in times to follow, in Castalia, the Province of Culture in the simultaneously utopian and dystopian future envisioned by Hesse, some of which is been experienced right now.

Art in general, as a process, as a skill, as a discipline, may be witnessed to have undergone various metamorphosis through its course through centuries, repeatedly shifting between existence and non-existence, Golden Ages and almost complete cultural amnesia, in societies enjoying markedly creative modes of existence (for example, Renaissance Venice or Florence) and those with a very low percentage of

creative output in the life of any society member, which, again, would have to be denoted as 'horizontal' or 'consumer' societies. There are many reasons to believe that, despite the local financial crisis, one of such societies, still on its way of becoming truly consumer, is the one we are living in right now. The methods of consumerism, however, become more and more sophisticated day by day. If we follow the events, and critically evaluate the information in our mailboxes and in mass media as TV or radio in general, it is necessary to admit that almost all the processes that constitute the everyday lives of individuals strive to become ever so more marketable and can't avoid being viewed as commercial, be it arts, professional sports, news or science.

Times have changed since *Woodstock Music & Art Fair* (1969), that outburst of hope for a certain amount of freedom, and positive changes culminating the decade. Nowadays, most people, artists included, have given up expectations for major changes in a world, driven by market economy, rivalry, devastation of nature, a society residing upon an Atomic Bomb, and almost mutely accepting that state (most recently exemplified by the events and reactions concerning radioactive pollution in Fukushima province, Japan.) Fifty years ago, at the start of Kennedy Era in US politics, the general attitude was slightly more cheerful, as far as the role of an individual and his possible impact on the society was concerned. At the same time, throughout the decade the artistic means chosen to speak about or communicate with the world became increasingly more aggressive, radical, dystopian and 'difficult', the public mood shifting from idealistic dreams to apocalyptic existentialist nightmares, the reality 'beyond the surface', one of social protests, violence and assassinations becoming ever more similar to the one depicted in the works of artists like Lee Bontecou (for example, the dark curvilinear and often void shapes of her protruding wall pieces,) Eva Hesse's trapped anthropomorphic shapes and Tony Smith's slick, menacing and, usually, black, geometry.

If we look for similar signs in the events of popular culture we can see the shift from Hippy flower-powered slogans, communal life-style and ideologies of 'peace and love' to Punk radical 'revolt', manifesting in the musical protest scene of the 1970s. Literary Criticism of the period however witnessed the shift from Structuralist to Post-Structuralist theories. In one of his seminal works *The Mythologies* (1957), a predecessor to the multiple system-revealing writings of the sixties, Roland Barthes exposes the construction of popular myths to the very roots. "We are permanently torn between the objects and their demystification, unable to transmit the object as a whole. Reaching the very depth of the object we liberate it, at the same time destroying it; if we keep its importance and weight, we also keep its wholeness, yet it still remains mystified," Barthes asserts, having also stated previously, that "the danger for the mythologist is that he might destroy the very reality he is trying to protect, (...) as he is using in his work a meta-language that in itself might be considered another ideology." (Barthes 2008:323) This might also explain, why a decade of arts concentrating upon the demystification of different aspects of the social system is also a decade witnessing a

gradual de-materialization of the art-work, in the steps from a Pop aesthetic to Minimal to Conceptual Art and finally returning art to the earth itself in Land Art.



Robert Smithson, Glue Pour, 1970

Creating his spilled works (*Asphalt Rundown*, 1969 and *Glue Pour*, 1970) artist Robert Smithson mimics and mocks the processes characteristic to technological society, yet at the same time it is impossible to say that his works are entirely free of any awe technologies might cause in an individual working with them. Meaning, that in early Land Art the urge to spill glue, create deep cavities in the ground, as in the works of Michael Heizer, or break glass, etc. was in a way more important to the artists than, say ecological concerns, although land reclamation and re-usage in the post-industrial Era already did seem important enough issues to Smithson, to be addressed quite extensively in his writings. “A dialectics between mining and land reclamation must be developed. Such devastated places as strip mines could be recycled in terms of earth art. The artist and the miner must become conscious of themselves as natural agents. When the artist loses consciousness of what he is doing through the abstractions of technology he cannot cope with his own inherent nature or external nature. Art can become a physical resource that mediates between the ecologist and the industrialist. The (...) mining companies must become aware of art and nature, or else they will leave pollution and ruin in their wake,” Smithson asserts. (ed. Flam 1996: 379)

The artist’s numerous proposals for artistic reuse of former mining territories should also be regarded as certain predecessors to the art of later decades delving deeper in the matters of the tense relations between nature and civilization. Culture and art proper, as one of the forms our civilization manifests itself through, being alert, or unaware, conscious or ignorant of the life-style it is leading and the consequences that might follow, remain a constant field of interest and an indicator of sorts, to the general processes taking part in the society at large, precisely because of the subjective

objectivity involved in most of the processes concerning creative work. An artist, when making work, is unable to avoid certain subjectivity of the process, despite the repeated attempts to erase any visible traces of hand-left-marks as many of the artists of the 1960s (Lichtenstein, Judd, Stella, Kawara, LeWitt) attempted to in the sixties . At the same time precisely that interest of one artist or many in specific materials and concepts gives enough reasons to try to objectify the concerns and try to put them in scientific language.

For example, artist Dan Flavin, employs fluorescent lights as a medium, using in the process standardized, industrially produced objects, the acquisition of which would be possible for most of the visitors of a local hardware store, although the true implications of placing these items into exhibition context might remain obscure to the casual passerby, uninitiated in the curves and U-turns determining the development line of contemporary art. However, Flavin in his works talks about light, in a way, the very same light as in Impressionist painting, a Monet, for example, yet manipulated, artificial, electric. It would not be erroneous to also suggest that light in his process is both the medium and the message, dealing with similar aesthetic concerns as the changing-light works by James Turrell.

The development patterns of light perception in art from candle-light to bright daylight, to artificial, standardised electric light and manipulated natural light in the exhibition context associatively demonstrate the leap society has made in the direction of favouring the systemic and pre-calculated, moving away from pure nature, and also from pure culture, moving ever closer to the market, the *agora*, ever-present in the urban life already from the times of the Ancient Greek epic poet Homer.

Carl Andre's *Equivalents 1-8* – horizontal brick arrangements refer to the levelling and standardisation processes quite similar to those in a later decade described and visually portrayed in the Pink Floyd's album *The Wall* (1979) and the subsequent video, while LeWitt renders the exhibition space almost inaccessible for the viewer, employing bricks to build it up and Allan Kaprow builds a wall of ice-cubes painted red. The bricks and the wall itself in this way may be interpreted as symbols of system imposed limitations on the free will of individuals. In a world that during the Soviet Era was often called 'the free West' artists and musicians have been hyper sensitive to the social processes and systems that turn individuals in 'just another brick in the wall' (Pink Floyd 1979) or build high walls between them. Not always they are able to avoid the process itself or destroy such walls, though.

The Latvian artists still are on their way to realising all the implications of a standardized and mechanized life in a bureaucratic pattern, a matrix of sorts, that the western society has already become so tired of, therefore the question may be posed if it is a problem at all, at the present state of affairs. It is necessary to argue that precisely this situation when, on local level, not all the rules how a particular society is supposed to function are closely set, there is still space for artistic movement, and a possibility to

take a far closer look at the course of events happening in the present day world and visually respond to them, affirming or denying the direction taken. As one such example and also a show-case of possible ways of response I would like to mention the contemporary art project *Survival Kit*, organized by LCCA on a yearly basis in Riga.

Conclusions, proposals, recommendations

Research shows that the movement away from an idealist Acropolis, down to the democratic plurality of the marketplace, (yet with voting rights for US and EU citizens mostly) in Arts is, in a way, an inevitable reality. Creative industries, artist collectives, messes, biennales, art-shopping, commercial galleries and fast dead-lines all put together make the Creative Process of nowadays fit in a tight system with set rules and predictable outcomes, where the romantically protesting and system-escaping Artist himself has become just another Commodity, speaking in Deborian terms or just another Character, if we refer to computer game terminology, well-defined and for this same reason – limited. If he protests hard enough, he is marketed as a Revolutionary, demonstrated for instance, by the example of the proactive, radical art practices of the Guerrilla Girls.

Chair of Visual Arts and Technologies at the Cleveland Institute of Arts, Saul Ostrow, actually claims that “Corporations, foundations and cultural institutions promoted the notion of horizontal culture by exploiting the educative aspects of critical culture, as well as, its fetishistic qualities. In this manner, art/culture’s value becomes a social supplement rather than a space of a disruptive virtuality. This is done with the intent of bringing cultural production into line with the idea that the cultural sphere can become market/consumer driven. In this scenario the criticality of the cultural field turns it on itself and becomes little more than a harmless political critique of its own impotence or that of capital’s encroachment into all areas of public and private life. The irony is that if art comes to be converted into nothing more than intellectual entertainment, capital would in turn lose one of its most valued and important areas of research and development. (ed. Elkins, Newman: 275). For this same reason it is only partly possible to share the claim of Nicholas Burriaud, that “The role of contemporary art exhibitions in the realm of image circulation is to create free spaces and a continuity with a rhythm quite opposite to the one determined by the mundane life. It promotes relations between people different from the ‘communication zones’ forced on us. The current social context creating special spaces for human relations actually limits them even more.” (Burjo 2009:16)

To what extent the development of art can be rationalized and planned remains an open question, yet, based on the research done so far the author of this article would readily claim that the very spontaneity of art is the sole quality that can pave way for a sustainable development of our culture.

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BRANCH SPECIFICS OF INTELLECTUAL PROPERTY PROTECTION AND ITS DEVELOPMENT TRENDS IN INFORMATION SOCIETY

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Abstract

The present paper deals with exploration of intellectual property protection problems in the information society.

Balancing of the author's and neighbouring rights comes to the benefit of the whole society – it provides the right for gifted people to receive the deserved remuneration and to pay taxes from it, as well as it lessens the possibilities for dishonest copyists to make shadow economy from illegally acquired resources.

It is essential to improve the society's awareness of the fact that support to illegal production or illegal actions not just hinders the development of the state but it also jeopardizes one of the fundamental human rights – to enjoy the achievements of science, culture and arts.

Keywords: *copyright, neighbouring rights, information society, balance.*

Legal Regulation of the Intellectual Property

The author has to receive compensation to reap the fruits of his labour. The more his work is performed, played and broadcasted, the greater compensation the author receives. However, nowadays, the copyright protects not only literary and artistic works, but also performers of work and contributors to films (film producers), broadcasts (broadcasting organizations) and phonograms (sound record companies). These rights are known as “neighbouring rights” or “related rights”.

The work created by author has a unique value, which must be protected against its unauthorised use or piracy; the fight must involve the law enforcement institutions, the legislator and the society. However, copyright protection should not take wrong direction because authors and other creative work performers are also a part of the society, and too stringent and senseless protection of one part of the society leads to ungrounded discrimination of the rest of it. Not only authors, but also the users of their works (film and phonogram producers, performers, broadcasting organisations) and

other consumers (whole society) are entitled to rights protection, especially in the era of new technologies or information society.

One of the basic principles of the copyright law is the legal protection of the author: the composer of a song, the filmmaker or software programmer is protected from unauthorized use of their products. This involves, firstly, his personal relationship with respective work, secondly – economic interests in their use. The author should benefit from any commercial exploitation of his/her work. Today, however, copyright is often contrary to the interests of the author and in many cases only the industry benefits from exploiting the work. Usually, the authors sell their rights more or less completely for a flat fee to a publisher, a record label or film company. As the rights are gone, the author no longer benefits from longer, more stringent or more extensive rights. (Kreutzer 2010)

Legal Base for Balance

Each copyright system has to find a balance between two interests: those of the copyright holders and those of the society. The two fundamental principles clash in virtually every copyright conflict: on the one hand, there is the necessity to protect the financial interests of the work's creator, on the other hand – the necessity to provide each individual the right to access the treasures of human art and knowledge. The following legal acts form the legal grounds for balance:

- the *Universal Declaration of Human Rights*¹ states that everyone has the right to take part in the society's cultural life and to receive protection for his/her art works;
- it is stated in the *International Covenant on Economic, Social and Cultural Rights*² that everyone has the right to take part in cultural life, using the results of scientific progress and fruits of their practical use, as well as to enjoy the moral and material interests protection related to any scientific, literary or art works of which this person is the author.
- the *International Covenant on Civil and Political Rights*³ states that everyone is entitled to search, receive and distribute various types of information and ideas, using press or artistic expression forms, subject to limitations, respecting other persons' rights and reputation;

¹ *Universal Declaration of Human Rights*. Adopted by the UN General Assembly on 10 December 1948. Article 27.

² *International Covenant on Economic, Social and Cultural Rights*. Signed in New York 16. 12. 1966. Published: United Nations, *Treaty Series*, 993. Volume, p.3, Article 15.

³ *International Covenant on Civil and Political Rights*. Signed in New York 16. 12. 1966. Published: United Nations, *Treaty Series*, Volume 993, Article 19.

- in the European Council *Convention for the Protection of Human Rights and Fundamental Freedoms*⁴ it is stated that anyone is entitled to receive and distribute information and ideas without interference from the public institutions and independently from the state borders, subject to balancing it with rights of other people;
- the *Constitution of Latvia* states that the state approves scientific, artistic and other creative freedom and protects copyright and patent rights⁵, and generally warranted right for freedom of expression, which includes the right to freely acquire, keep and distribute information, to express one's views.⁶

Over the past decade copyright researchers from several countries have raised the issue on evaluation of existing copyright protection regulation in connection with the development of technology and public opinion. A lot of opinions have been expressed in literature on the necessity to ensure a balance among different right holders themselves and the society as a whole. Copyright researchers consider that a balance should be established among different groups of rights holders, and that the society and copyright cannot be furthered as a limitation of the freedom of speech.

Intellectual Property Protection at the EU Level

Although European countries have acceded to the main copyright and neighbouring rights treaties, there are still differences among the countries. The reason behind these differences is the fact that the European Union consists of countries, which belong to the continental and common law systems where the intellectual property regulation mechanisms drastically differ. Therefore, at the European Union level, harmonization has been carried out minimally, mainly regarding the spheres with recent legal regulation (for instance, regarding use of modern technologies). Irrespective of various essential differences among the Member States on the basic positions in the field of copyright, the EU institutions have nevertheless tried to identify general principles.

The regulations on copyright and neighbouring rights mostly cover the pirated sound recordings and audiovisual works, and two main regulations have been adopted:

- circulation of pirated goods – Council Regulation (EC) No 1383/2003 of 22 July 2003 concerning customs action against goods suspected of infringing certain intellectual property rights and the measures to be taken against goods found to have infringed such rights. Published OJ L 196, 2. 8. 2003, p. 7.;

⁴ European Council Convention for the Protection of Human Rights and Fundamental Freedoms. Signed in Rome on 4 November 1950, Published: European Treaty Series – No. 5. Article 10.

⁵ Constitution of the Republic of Latvia (Satversme). Adopted on 15. 12. 1922. Published: Vēstnesis, 01. 07. 1993, No. 43. Article 113.

⁶ Constitution of the Republic of Latvia, Article 110.

- implementation of the first regulation of circulation of pirated goods Commission Regulation (EC) No 1891/2004 of 21 October 2004 *laying down provisions for the implementation of Council Regulation (EC) No 1383/2003 concerning customs action against goods suspected of infringing certain intellectual property rights and the measures to be taken against goods found to have infringed such rights*. Published OJ L 328, 30. 10. 2004. p. 16.

Several directives are adopted, which harmonize various issues of copyright:

- Council Directive 91/250/EEC of 14 May 1991 on the legal protection of computer programs. (Official Journal L 122 , 17.05.1991, pp. 42–46)
- Council Directive 92/100/EEC of 19 November 1992 on rental right and lending right and on certain rights related to copyright in the field of intellectual property. (Official Journal L 346, 27.11.1992, pp. 61–66)
- Council Directive 93/83/EEC of 27 September 1993 on the coordination of certain rules concerning copyright and rights related to copyright applicable to satellite broadcasting and cable retransmission. (Official Journal L248, 6.10.1993, pp. 15–21)
- Council Directive 93/98/EEC of 29 October 1993 harmonizing the term of protection of copyright and certain related rights. (Official Journal L 290, 24.11.1993, pp. 9–13)
- Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society. (Official Journal L 167, 22.6.2001, pp. 10–19)

Much attention should be paid to improvement of the procedural legal norms because without their effective operation material norms can't be applied efficiently. Therefore the Directive on the Enforcement of Intellectual Property Rights⁷ was adopted at the European level, the aimed at approximating the legal systems of the Member States in order to provide high, equal and homogenous level of intellectual property protection in the internal market. The Directive provides for introduction of several new procedural instruments in order to enforce in practice the high protection level provided for owners of intellectual property rights by the material legal norms.

The general conclusion is that the EU directives have been successfully implemented in the legal system of Latvia, but it should be recognized that the Latvian Parliament has a habit to implement the rules that are stronger than the European Directives require, although the directive in some cases allows for introducing less strict regulations.

⁷ Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 *on the enforcement of intellectual property rights*. Published: OJ L 157, 30. 4. 2004, p. 45

Intellectual Property Protection at the International Level

Copyrights and neighbouring rights are always national rights. The peculiarity of the intellectual property rights is its territorial character, that is, they originate in accordance with the laws of a certain country and their legal protection is limited to the borders of the country. So, if permission for use of a work is received in one country, the same is not recognized in another one. For example, one can mention the property rights – the subject of the rights uses and exploits his/her belongings in any country. If property rights have arisen in a country pursuant to the legislation of the given country, such rights are recognized in other countries as well and they are protected from all kinds of threats. The copyright protection, in its turn, is provided just in the country of origin. In the absence of legal protective measures, the works, which are first published in a state, may be translated and published quite cheaply in another state without author's authorisation and copyright payment.

In order to overcome the territorial character of protection, cross-border treaties on mutual copyright recognition and protection need to be concluded. On their grounds, copyright, which has originated in one country pursuant to its laws, shall be effective and protected in other countries pursuant to their laws.

Thus, states have concluded a number of international treaties for copyright and neighbouring rights protection. The main treaties are: the Berne Convention for the Protection of Literary and Artistic works (*Berne Convention*)⁸, the Rome Convention on Protection of Performers, Phonogram Producers and Broadcasting Organisations Rights (*Rome Convention*)⁹ as well as both new WIPO Treaties – the WIPO Copyright Treaty (*WCT*)¹⁰ and the WIPO Performances and Phonograms Treaty (*WPPT*)¹¹.

The international conventions oblige adhering states to grant, under their national law, the minimum protection provided for in the Convention, plus to grant nationals of other states adhering to the Convention national treatment. The Berne Convention foresees minimum rights that should be guaranteed to authors with respect to their created work in order to ensure the aforesaid. Latvia has acceded to the following above-mentioned international treaties:

⁸ *Berne Convention for the Protection of Literary and Artistic works*. Signed in Berne on 9 September 1886.

⁹ *Rome Convention on Protection of Performers, Phonogram Producers and Broadcasting Organizations Rights*. Signed in Rome on 26 October 1961. Published: United Nations, Treaty Series, Volume 496, p. 43.

¹⁰ *WIPO Copyright Treaty*. Approved at the Diplomatic Conference of WIPO on 20 December 1996 in Geneva. Adopted by the Latvian Parliament on 3 February 2000. Published: *Latvijas Vēstnesis*, 17 February 2000, No. 53/54.

¹¹ *WIPO Performances and Phonograms Treaty*. Approved at the Diplomatic Conference of WIPO on 20 December 1996 in Geneva. Adopted by the Latvian Parliament on 3 February 2000. Published: *Latvijas Vēstnesis*, 17 February 2000, No. 53/54.

- *Berne Convention* (Rome, 1928, Paris 1971)¹²;
- *Rome Convention* on 20 August 1999¹³;
- *WCT* and *WPPT* on 20 May 2002¹⁴.

Development Trends of Intellectual Property Protection in National Legislation of Latvia

Latvia's accession to several international copyright treaties required a substantial revision of the Law on Copyright and Related Rights as of 1993. This revision lasted for several years (1997–99) and led to a decision to draft an entirely new law, in order to harmonize it with relevant EU directives as well as the *Berne Convention*, the *Rome Convention* and the WIPO treaties and conventions (to which Latvia had acceded in the meantime as shown above). The revised *Copyright Law*¹⁵ was adopted by the Latvian Parliament on 6 April 2000, and became effective on 11 May 2000. The level of copyright protection in Latvia approached the European and international standards, especially as to the related rights of broadcasting organizations.

Authors are entitled to a broad range of relevant property rights, however, certain amendments and additions to the law are needed in order to ensure balance between the right holders and the society.

1. Restrictions and limitations in national law should be updated

The copyright laws of different states set forth different restrictions, i.e., cases when the work created by the author can be used by the society without requesting the permission or without paying. The restrictions and limitations are justified by the rights of the society to avail the copyright materials for a definite purpose or special rights for certain user groups (e.g., disabled persons) with the aim of creating a balance between the owner's rights and users' interests. However, often the right to receive information is endangered due to exaggerated limitations to the author's rights: access to the cultural heritage is denied and the rights are not granted to use works in new technologies.

¹² *Berne Convention*. Noting that Latvia had acceded to the Berne Convention as of 15 May 1937, but that Latvia had lost its independence on 21 July 1940 and had regained it on 21 August 1991. Latvia acceded to the Paris, 1971 Act on 1 August 1995, with the Decree of Cabinet of Ministers No. 197. Published: *Latvijas Vēstnesis*, 26 April 1995, No. 64.

¹³ *Rome Convention*. Latvia acceded on 12 March 1998 by the Act of the Latvian Parliament, published: *Latvijas Vēstnesis*, 31 March 1998, No. 84/85.

¹⁴ WCT and WPPT. Latvia acceded on 3 February 2000 by the Act of the Latvian Parliament, published: *Latvijas Vēstnesis*, February 17 2000, No. 53/54.

¹⁵ *Copyright Law*. Adopted on 6 April 2000. Published: *Latvijas Vēstnesis*, 27 April 2000, No. 148/150.

The European Directive on the Enforcement of Intellectual Property Rights¹⁶ allows for introducing some restrictions and limitations to copyright protection in national laws in favour of society's free access to cultural and scientific heritage and developments. Although, some allowed restrictions are not introduced in the Latvian Copyright Law – for example, regarding technological measures and exceptions to copyright – no provisions are included in the Latvian Copyright Law regarding incidental inclusion (Article 5(3)(i)), advertising in public exhibitions (Article 5(3)(j)), demonstration and repair (Article 5(3)(l)), reconstruction of buildings (Article 5(3)(m)) and uses in cases of minor importance (Article 5(3)(o)).

2. Access to the products of film and phonogram producers should be updated

A more efficient way rather than charging a certain fee for watching, listening or downloading each song, film, etc., is to allow users access to copyright protected works on the condition that they first watch an advertising clip. Then the authors could be compensated for the work from the money paid by the advertisers.

Services that operate according to the principle “I am downloading music and I like the music, so I am paying to help my favourite musicians” is becoming increasingly popular around the world. The satisfactory solution for the information society as well as for authors – to allow access to copyright works but to let viewers-listeners decide for themselves if and how much they are willing to pay for the use of each work.

Every country shall be responsible for including a levy in its national legislation for real data carriers of authors' works. If the compensation has to be paid only for those carriers mentioned in the legislation (of many countries including Latvia) and not for data carriers on which authors' works are being copied at present, there is no real protection. Of course, any such compensation should be reasonable so that the end user would practically not feel the difference and, therefore, would not refuse to pay.

The provisions envisaging an obligation on the part of the Internet service providers to charge a fair fee from each user could be incorporated in the national legislation. It would allow him/her to reproduce (copy) the work for personal use – similar to the blank tape levy system.

3. Restrictions should be placed on the author's right to revoke the usage of their work

Section 14 of the Copyright Law describes various moral rights of an author which include the right to revoke a work by requesting discontinuation of the use of work, if the author compensates the losses, which the user has incurred due to this discontinuation (Section

¹⁶ Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 *on the enforcement of intellectual property rights*. Published: OJ L 157, 30. 4. 2004, p. 45.

14 (1), Clause 3). In this Clause some restrictions should be placed on the authors' revocation right. For example, revocation rights should not be used in case of the creation of an audiovisual work or in employment relationship and terms and conditions concerning compensation of losses, which have been incurred by the user due to the revocation of work should be stipulated.

4. Principles for calculation of remuneration amounts paid to collecting societies should be fixed

Many problems in Latvia arise from the negotiation process between the users of works and collecting societies. In order to solve these problems, principles or guidelines for calculation of the amount of remuneration should be fixed. Furthermore, the right to use authors' works for broadcasting should be granted if the broadcaster has made certain payments to the account of the collecting society until the court or mediator fixes the amount of the remuneration to be paid. Unfortunately, the competence of the Mediator is very narrow. The mandate of this institution should be expanded to facilitate and speed up negotiations between users of the work and collecting societies. It should be stated that the right to use authors' works for broadcasting is granted if the broadcaster has made certain payments to the account of the collecting society until the moment when the court or other mediator fixes the amount of the remuneration to be paid.

5. The rights of the broadcasting organizations to use the archives should be updated

Section 37(4) of the Copyright Law extends the term "copyright" for works, which were prohibited or restricted in Latvia from June 1940 to May 1990, by excluding the years of such prohibition or restriction from the term "copyright". This clause is in recognition of the period during which Latvia was illegally annexed by the USSR.

Section 53(3) of the Copyright Law states that a broadcasting organization has the right to broadcast and communicate to the public the audiovisual works and phonograms, which were lawfully included in its archives until 5 May 1993, the date when the Law on Copyright and Related Rights entered into force. However, the broadcasting organization must pay remuneration to the rights holders pursuant to Section 63 (General Provisions for Collective Management). This is still seen by some sectors as an inadequate recognition of their rights for audiovisual works and phonograms created during the Soviet years.

Conclusions

Balancing of the authors' and neighbouring rights is to the benefit of all society – it provides the right for gifted people to receive the deserved remuneration and to pay taxes from it, as well as it lessens the possibilities for dishonest copyists to make shadow economy from illegally acquired resources and limits the opportunities for monopolists to abuse their dominating position.

It is essential to improve the society's awareness of the fact that support for illegal production or illegal actions not just hinders the national development but it also jeopardizes one of the fundamental human rights – to enjoy achievements of science, culture and art.

The education level on intellectual property in higher education institutions should also be strengthened with the aim to promote the understanding about protection of intellectual property and furthering intellectual property studies in the European Union, including the higher education institutions of Latvia.

Nowadays the environment where the authors' works are used has significantly changed and it would be appropriate to change the copyright system so that it would suit the interests and concepts of the modern people better. Thereby, the copyright protection would be updated taking into consideration both the authors' interests and the information society's right to access the scientific and art accomplishments.

By establishing a balance among the groups of rights holders, it would be possible to ensure that the rights and circulation of the funds are observed. It would allow, first of all, the rights holders to receive remuneration for their created intellectual product and the economy in general would benefit both in terms of taxes and GNP increase. Piracy or illegal use of intellectual property should be countered in all its forms of expression. However, in the fight against piracy one should not forget the individual's fundamental rights and the interests of the society in the information era.

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ASSESSMENT OF LATVIAN CULTURAL EXPORT CASE STUDY: THE STATE CHOIR "LATVIJA"

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Abstract

The purpose of this paper is to ascertain the relevance of cultural export and export driving factors in the economic performance of the State Choir "Latvija". The present paper investigates different aspects of business, quality and economic factors, which influence the financial accomplishments of the choir, and shows the export capacity of the academic music tradition in Latvia. The research examines the choir's strategic approach to focus, first and foremost, on the creation of cultural value, and combination of it with the creation of financial value. A case study method is used to investigate a successful case of steadily growing export turnover achievement, and to analyse it as an example of good practice. The results of this research reveal reasons for productive cultural entrepreneurship, display the State Choir "Latvija" as an example of successful economic development despite economic crisis, and contribute to the further development of cultural export in Latvia.

Keywords: *cultural export, creative industries, cultural economy.*

Introduction

The specific features of each society's cultural traits can be turned into advantage through the production of cultural goods and services for which markets can be developed abroad (UNESCO 2010). One objective is to attract increased numbers of visitors from other areas. Another, and possibly more important goal, is to enhance the image and prestige of particular places so as to draw in upscale investors and the skilled high-wage workers who are following their train (Scott 2004).

The long-term strategy "Latvia 2030" recognizes culture and creativity as important assets for the future development of the country. Sedleniece (Sedleniece 2010) points

out that many of the examples of good practice in the creative industries are based on the "pre-crisis" evidence and it would be sensible to seek a comprehensive assessment of future development potential since the euphoria of the recent growth period in Latvia would facilitate policy planning for the creative industries. Such an assessment should identify how current socio-economic challenges could affect human behaviour, including consumption, and what this will mean for development of the creative industries. She believes that an increased awareness of strengths of cultural performance, as well as the potential for regional and international cooperation will help bring future possibilities into focus.

Cultural goods account for a larger share of the EU exports than imports. In 2010, 0,6% of EU27 exports of goods and 0.4% of EU27 imports with the rest of the world were cultural goods. The goods produced by cultural industries – books, newspapers, journals and periodicals, DVDs, compact disks, works of art, and musical instruments – are traded internationally (Eurostat 2011: 76). These data are drawn from external trade statistics collected from customs and the VAT declarations on trade in goods. Information on international trade for EU-27 is calculated as the sum of trade with countries outside this area. In other words, EU-27 is considered as a single trading entity and trade flows into and out of the area (but not within it) are measured. On the other hand, international trade flows for individual Member States and other countries are generally presented with the rest of the world as the trading partner, including trade with other Member States (Eurostat 2011: 107). Unfortunately, there are no statistics concerning concerts, performing arts and academic music, where Latvia has a great opportunity to show good export results.

At present, the State Choir "Latvija" is of high demand among choirs in Europe and in 2010 has given over twenty concerts abroad, including the most prestigious concert halls (Amsterdam Concertgebouw; Hamburg Laeishalle; Lucerne Concert Hall; Igor Stravinsky Hall in Montreux and others). The choir has been awarded five-times with the *Great Music Award* of Latvia (in 1998, 2000, 2002, 2009 and 2010). The choir recently has worked with conductor Mariss Jansons, musicians of Icelandic group Sigur Rós in Linkoln Centre (New York), Berliner Philharmoniker and with the conductor Sir Simon Rattl. The aim of the present paper is to analyse the economic performance of the State Choir "Latvija" Ltd. and to show export capacity of academic music tradition in Latvia.

Materials and Methods

The case study method is applied in this research in order to have a view on cultural export of the State Choir "Latvija" and to analyse a *good practice example*. To attain the objective of the study, the authors have chosen qualitative approach as the applied qualitative approach phenomena are studied in their natural setting (Denzin, Ryan 2007).

It allows for understanding of differences in the phenomena to be studied (Hunter, Brewer 2003) and provides the researcher's close contact and interaction with the people involved in the study, which is an advantage for obtaining the research results. Another advantage is its transparency and publicity (Freeman, de Marrais 2007; Denzin, Ryan 2007). Moreover, such empirical materials as case studies, personal experiences, introspection, interviews, observations (Denzin, Ryan 2007) tend to be analysed by applying qualitative approach.

The methodology adopted for the research comprised a number of research strategies, which included: an in-depth interview by the producer of the State Choir "Latvija". The in-depth interview was chosen as it allows studying the research question in a more detail than other methods, e.g., a questionnaire (Denzin, Lincoln 2003; Flick 2005; O'Lear 2010). Content analysis (Denzin, Lincoln 2003) was applied for data analysis and interpretation as it includes systematic qualitative analysis of the phenomena, which helps draw considerate conclusions (Mayring 2004) and to analyse the economic performance of the State Choir "Latvija" *Ltd.*

Results and Discussion

Towse (Towse 2010:414) stresses, that music is being promoted by various international organisations as a creative industry that could foster economic growth in less-developed countries. The Latvian government, in its political documentation, pursues the following definition: "Creative industries involve activities, based on individual and collective creativity, skills and talents, which by way of generating and utilizing intellectual property, are able to increase welfare and create jobs. Creative industries generate, develop, produce, utilize, display, disseminate and preserve products of economic, cultural and/or recreational value" (Miķelsone *et al.* 2008).

The Long-Term Cultural Policy Guidelines 2006–2015 "National State" highlight the cultural sector within a multidisciplinary approach. Sedliniece (Sedleniece 2010:12) stresses that culture as one of the branches of the national economy contributes to the well-being of the people as well as to the development and competitiveness of individuals, society and the state.

According Fleming (Fleming 2010:28), there are three types of "logic" for developing a coordinated approach to the creative industries across the Baltic Region and the State Choir "Latvija" reaches all of them. See Table I.

Table I

Approaches to creative industries

Indicator	Performance of the State Choir “Latvija”
A commercial logic: developing greater visibility to local, regional, national and global markets; connecting for scale; coordinating complementary strengths; increasing convergence opportunities with other sectors.	Well-known at professional level; mostly gives concerts in international markets.
A professional logic: exchanging knowledge; building a larger skills base; and providing a bigger portfolio of investment propositions.	The Baltic sound; professional experience with top class conductors, artists and orchestras.
A cultural logic: building on intertwined histories; exploring common contemporary sensibilities; and exploiting links to the wider cultural sector.	Keeps professional level of academic music; communicate their aims in moral terms – they want to educate their spectator and get a new one as well.

Both, the strictest criteria for the vocal quality of a performance and the choir traditions in Latvia are the main reasons for development of the State Choir “Latvija”. In November 2003, UNESCO proclaimed the tradition of the Song and Dance Celebration in Latvia as a Masterpiece of the Oral and Intangible Heritage of Humanity. Over the years, the State Choir has achieved its special sound by cultivating its own signature for performance style and modes of expression, as it is called by the producer – the Baltic sound. At the time of globalization, competition and rapid change the high-quality performance and well-known brand in academic music industry is one of core assets for the cultural export. The choir focuses, first and foremost, on the creation of cultural value and tries to combine this mission with the creation of financial value. During the economic crisis the total income of the State Choir “Latvija” has been growing every year since 2006. In 2010, it reached almost LVL 250 000 per year – a good result even for commercial music agency. See Figure I.

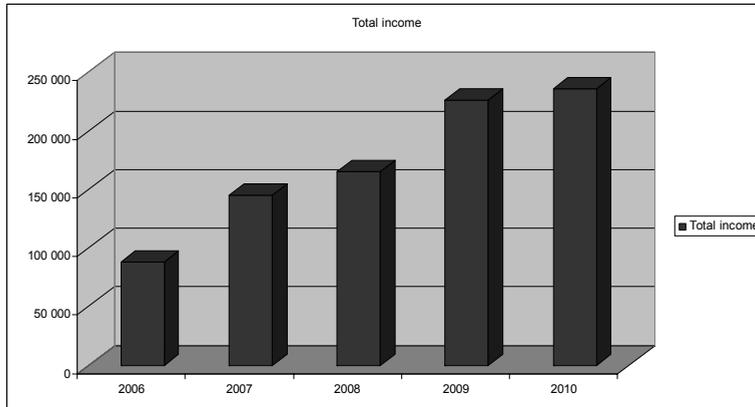


Figure 1. Total Income of the State Choir “Latvija”

The producer of the choir confirmed that the best way to get concert arrangements is to perform in festivals, competitions and to have good contacts with agencies. The choir does not get hung up on the plans and strategies. If an opportunity comes along, they try to take it, even if it does not fit their original plan. The core assets are the forms of social capital – relationships, networks and cooperation. In this case social capital is a way to the financial capital. According to the financial performance analysis, it can be concluded that high incomes from foreign markets turn down activities in local market. The State Choir is subsidized by the government and one of the aims is to encourage the professional choir music tradition and to attract new audience. Despite the fact that income from concerts for the local audience dramatically decreased, the economic value of the State Choir has increased because of the internationally known and acknowledged brand. Also the results of the financial performance have improved thanks to the income from the international markets. See Figure 2.

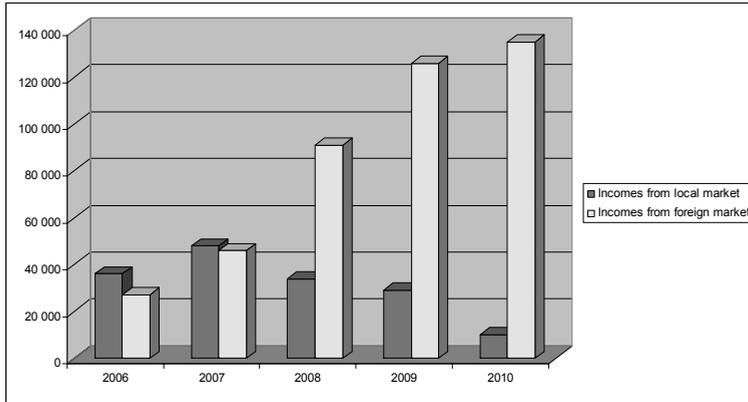


Figure 2. Income from the State Choir “Latvija” Performance

According to Towse (Towse 2010: 264), economists are concerned with the social costs and benefits using the ideas of welfare economics; the externalities (the difference between private and social costs and benefits) cannot always be accurately measured, because cultural projects are expected to be long – lived and, therefore, there may be different views on future outcomes. The performance of the State Choir “Latvija” from 2006 till 2010 shows, that in the course of 5 years the income from concerts in foreign countries has increased roughly by 500%. Just in previous two years the choir has been working with the EU projects, which gives almost half of the money they earned abroad. It means that every activity has to be measured in the long-term perspective. The producer proclaimed that almost all contracts they get just from personal contacts and performances in festivals, concerts and competitions. It takes time, but also makes a brand and, thereafter, income. See Figure 3.

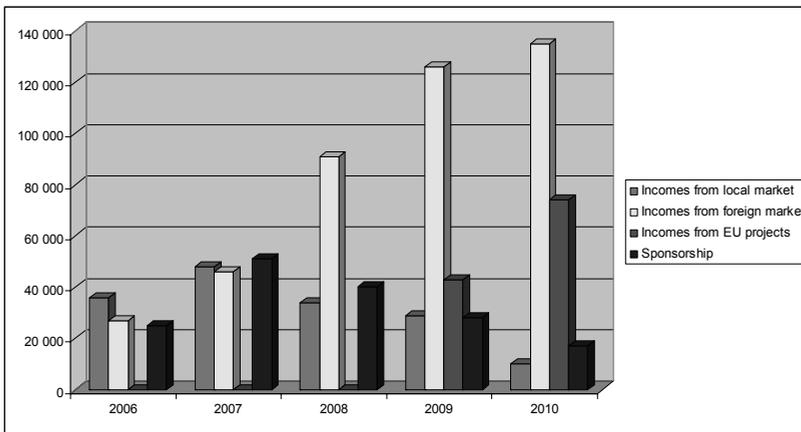


Figure 3. Collation of Incomes

Conclusions

- 1) Steadily growing number of concerts of the State Choir “*Latvija*” performed abroad is a successful example of the Latvian cultural export.
- 2) Demand for the choir has increased significantly. The performance of the State Choir “*Latvija*” from 2006 till 2010 shows, that in the course of 5 years the income from concerts in foreign countries has increased roughly by 500%.
- 3) Significant choir export management tools are forms of social capital – relationships, networks and cooperation. In this case social capital is a way to the financial capital.
- 4) The strictest inner criteria for the vocal quality of a performance and the choir traditions in Latvia are the main reasons for overall development of the State Choir “*Latvija*”.
- 5) Economic value is created and enlarged through constant quality improvement. This is confirmed by international recognition in the form of contest awards: the choir has been awarded five-times with the *Great Music Award* of Latvia (in 1998, 2000, 2002, 2009 and 2010), and concerts in internationally famous and significant venues: including the most prestigious concert halls (Amsterdam Concertgebouw; Hamburg Laeiszhalle; Lucerne Concert Hall; Igor Stravinsky Hall in Montreux and others).
- 6) Quality improvement and international recognition are the key success factors of the State Choir “*Latvija*” for fostering economic performance in foreign markets.
- 7) Despite the fact that income from concerts for local audience has dramatically decreased, the economic value of the State Choir “*Latvija*” has improved because of its internationally known and acknowledged brand.
- 8) Successful implication of cultural export not only compensates income decrease in local market, but ensures steady growth.
- 9) The strategic approach of the choir is to focus, first and foremost, on the creation of cultural value, and combination of it with the creation of financial value, proves successful and sustainable.

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Financial Management and Taxes for Sustainable Developmen

ROLE OF ENVIRONMENTAL LIFE CYCLE COSTING IN SUSTAINABLE DEVELOPMENT

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Abstract

Conventional LCC or cost management practices are often not suitable for an assessment of the economic implications of a product life cycle in a consistent sustainability framework. The conventional LCC approaches need to address the complete life cycle and need to be expanded to better link to other sustainability aspects: environmental and, if desired, social aspects. The main question is how costs and environmental aspects can be combined in a consistent way. The answer is Environmental Life Cycle Costing. This article presents main goals, scopes and framework of ELCC and his role, position and relation to Sustainability Assessment.

Keywords: *Environmental Life Cycle Costing, LCA, LCC, sustainability.*

Introduction

The main objective of Life Cycle Assessment (*LCA*) is to ensure complete and detailed identification of environmental effects of a product throughout its lifetime. Such approach leads to depreciation of both economic and social issues, which can significantly limit the utility of LCA technique in relation to fundamental premises of sustainable development. This paper presents basic assumptions and concepts of Environmental Life Cycle Costing (*ELCC*) in the light of recent tests and international research studies as well as analyses of professional literature, and position the ELCC concept in the context of sustainable development processes.

Concept of Environmental Life Cycle Costing ELCC

In its most general definition, Environmental Life Cycle Costing (*ELCC*) is a listing of all cost incurred during product cradle-to-grave cycle, as borne directly by one or several entities participating in the cycle (such as: supplier, producer, end-user, consumer, as well as entities involved in the end-of-life phase of the product under evaluation). One important characteristics of the ELCC concept is the requirement that all cost under study must refer to actual monetary flow. The main reasoning behind

development and use of ELCC accounting is the observation that standard methods of product life cycle assessment, such as LCA, are often perceived as barriers to economic development. This is particularly evident in relation to modern technologies, characterized by drastic reduction of life time cycle. (Hunkeler, Lichtenvort, Rebitzer 2008: 11)

General framework of Environmental Life Cycle Costing is based on physical life cycle of a product under evaluation. This approach requires separate assessment of 5 distinct life time stages, detailed and elaborated as required, namely: research and development, production, use and maintenance, and disposal/recycling management.

ELCC accounting, as opposed to traditional Life Cycle Cost (LCC), supplements product cost analysis with the so-called environmental cost. The environmental cost represents economic cost incurred as a result of environmental use, such as eco-taxes, cost of waste emission and emission control, cost of eco-product marketing, etc.. In conceptual assumptions of ELCC, these cost items should be inventoried and singled out in profit-and-loss account. As this approach may result in additional labor cost, practical application of ELCC typically involves some sort of assessment as basis for determining the share of environmental cost within total operational cost. In addition, ELCC accounts for consumer-incurred cost, most notably the cost of waste disposal. In other words, contrary to traditional LCC evaluation, ELCC takes into account all environmental cost supplemented by any external cost that may occur in foreseeable future. (Hunkeler, Lichtenvort, Rebitzer 2008: 9–16)

ELCC should not be employed as an independent technique; it is meant to supplement and complement the LCA environmental analysis. As such, it should be designed to conform to LCA methods. LCA is a globally normalized method for evaluation of environmental impact of a product as well as estimation of total consumption of resources within the complete product life cycle. (Ciambrone 1997: 6–9) This involves raw material output, production and end-user operation, recycling, energy recovery and eventual neutralization of the remaining waste. Procedures of ELCC accounting should supplement and support the standards (norms) of ISO 14040 and ISO 14044 that apply to life cycle. International ISO standards provide solid and verified requirements for conducting transparent and adequate calculations of such measures as carbon trace. (Biulety 5/2009) The first technical norms were postulated by ISO organization in late 1990s. The most important standards of the period, as applied to the issue of product life cycle, included:

- ISO 14040: 1997 *Environmental management – Life cycle assessment – Principles and framework* (PN-EN ISO 14040:2000 Zarządzanie środowiskowe – Ocena cyklu życia – Zasady i struktura);
- ISO 14041:1998 *Environmental management – Life cycle assessment – Goal and scope definition and inventory analysis* (PN-EN ISO 14041:2002

Zarządzanie środowiskowe – Ocena cyklu życia – Określenie celu i zakresu oraz analiza zbioru);

- ISO 14042:2000 *Environmental management – Life cycle assessment – Life cycle impact assessment* (PN-EN ISO 14042:2002 Zarządzanie środowiskowe – Ocena cyklu życia – Ocena wpływu cyklu życia);
- ISO 14043:2000 *Environmental management – Life cycle assessment – Life cycle interpretation* (PN-EN ISO 14043:2002 Zarządzanie środowiskowe – Ocena cyklu życia – Interpretacja cyklu życia) (*LCA – środowiskowa ..2011*).

A thorough reconstruction of the early standards, conducted in 2006, resulted in formulation of a number of new standards. Polish translations provided by PKN in 2009 included the following:

- ISO 14040: 2006 *Environmental management – Life cycle assessment – Principles and framework* (PN-EN ISO 14040:2009 Zarządzanie środowiskowe – Ocena cyklu życia – Zasady i struktura);
- ISO 14044: 2006 *Environmental management – Life cycle assessment – Requirement and guidelines* (PN-EN ISO 14044:2009 Zarządzanie środowiskowe – Ocena cyklu życia – Wymagania i wytyczne) (*LCA – środowiskowa ..2011*).

At the present state of global technological advancement, the following stages may prove useful for the purpose of realization of LCA technique supplemented by ELCC accounting. It must be noted that the particulars of individual stages of construction and implementation may vary depending on characteristics of end users, recipients or product types. Bearing that in mind, basic outline of the stages involved may be presented as follows:

- goal and scope definition,
- data collection,
- data interpretation and identification of key points,
- susceptibility analysis,
- conclusions. (Hunkeler, Lichtenvort, Rebitzer 2008: 12)

According to M. Rosund, the process of preparing the cost account of ELCC may be summarized as follows:

- problem definition,
- definition of cost elements,
- system modeling,
- data collection,
- cost profile modeling,
- evaluation. (Rausand 2001)

ELCC-based analysis should be performed within the second stage of the LCA process, i.e. during input data inventorying (catalogue of materials and energy use can be supplemented by cost data pertaining to each item) as well as output data

inventorying (taking into account emission and waste production data, one may supplement them with corresponding cost of economic use of environment) for individual processes and for selected functional units. In this way, both 'input' and 'output' may be presented in monetary terms. (Hendrikson, Lave, Matthews 2006:10)

Moreover, taking advantage of the prospect for establishing potential environmental load, both producers and consumers can make informed decisions on selection of particular products that present minimal environmental load (LCA) and the lowest possible life-cycle cost (ELCC).

Thus, ELCC account can be defined as sum of all cost incurred during design, construction, production, transportation, operation and, eventually, storage, recycling and utilization of a product. In addition, implementation of ELCC accounting requires a pre-defined time-frame (product life-span) to be employed in the analysis. Such time-frame should correspond with estimated duration of environmental impact of a product under study. (Kowalski, Kulczycka, Góralczyk 2007: 160–161)

ELCC cost account, in line with international research studies, should account for investment risk through the use of a predefined discount rate. Research data suggest that the discount rates for each category of environmental impact should be set as follows: 0,1% for natural resource depletion, 0,01% for climate changes and 0,001% for toxicity (these are exemplary categories). (Kowalski, Kulczycka, Góralczyk 2007: 160–161)

The scope of ELCC account

ELCC account scope differs widely from the premises of LCA method, since, by design, it applies not only to environmental impact but also to cost. Consequently, both methods should be perceived as complementary. ELCC accounting should not be regarded as part of financial accounting methods. This method is part of cost management processes in the context of sustainable development, aimed at estimation of cost incurred within full life-span of the product under study. Similarly, the LCA method is not an accounting method per se, but a management method aimed at estimating total environmental impact of a product, to be employed in evaluation of alternative solutions. (Hunkeler, Lichtenwort, Rebitzer 2008: 39–40)

Goal and scope of ELCC accounting should be defined prior to product research and implementation. It is important to establish the margins of both the system as a whole and of individual units addressed by cost analysis. The most fundamental activities involved in definition of ELCC scope include:

- determination of total cost incurred, both by producer and the consumer;
- evaluation of product competitiveness – determination of consumer cost;
- reporting, monitoring and active evaluation of company internal cost;
- arriving at a compromise on managerial level in respect to product portfolio and their relationship with ELCC accounting results;

- identification of potential alternatives;
- identification of the compromise between economic and environmental aspects;
- defining of corporate social responsibility (CSR) and social influence of the product;
- identification of potential producer and long-term cost, analysis of potential economic benefits for consumers, determining the environmental and social impact at EOL (*end-of-life*) stage;
- defining correlations between individual criteria (internal vs. external cost);
- defining the optimal life cycle, taking into account potential changes, such as change of raw-material purchase system. (Hunkeler, Lichtenvort, Rebitzer 2008: 12–13)

ELCC cost accounting, as explained above, refers to all cost incurred. The cost total is part of the system defined within the LCA method. Following this line of reasoning, the ELCC calculation formula may be expressed as follows:

$$ELCC = C_{ic} + C_{in} + C_e + C_o + C_m + C_s + C_s + C_{env} + C_d$$

where:

C_{ic} – initial investment cost

C_{in} – installation cost

C_e – energy cost

C_o – operational cost

C_m – cost of repairs and maintenance

C_s – cost of stoppages and production losses

C_d – cost of recycling, discharge, rehabilitation etc.

(Kowalski, Kulczycka, Góralczyk 2007: 174)

The above formula is, naturally, an entry point and should be modified in accordance with requirements of a given entity as well as adjusted to suit a particular product.

Significance of ELCC in the light of premises of sustainable development

The notion of ‘sustainable development’ was implemented in political and public sphere following the recommendations of the World Commission on Environment and Development. The proponents emphasized man’s responsibility to sustain human life for future generations. Sustainable development is defined as development which meets the needs of the present without compromising the ability of future generations to meet their own needs.

In practice, common belief holds it that sustainable economic development requires (or is based on) the life cycle costing account. However, modern industry employs a model that combines 3 aspects: economic, social and environmental. Those aspects are

intertwined and correlated. Consequently, the following formula for sustainable development can be postulated:

$$SustAss = LCA + ELCC + SLCA$$

It must be noted that for the formula to be valid, all three components should be cohesive and clearly defined. One can provide a joint definition of the above constituents based on the premises defined in ISO 14040, with the proviso that SLCA may require introduction of socio-geographical data. Life cycle is the precondition of any valid assessment. The Environmental Life Cycle Costing, by design, helps to improve the environment and utilize it in a rational manner. As such, it does not offer any methods for ‘carrying’ the environmental problems into the future. By incorporating this aspect in ELCC, one may include and implement the practical postulate of intergenerational justice. The compromise obtained by incorporating Environmental Life Cycle Costing in the assessment and implementation of sustainable development must be based on assessments both of quantitative and qualitative value. Living in global economy, we mustn’t forget that the limits of the system employed in calculation process must also be represented in global dimension.

Conclusions

While making inquiries into the subject of sustainable development, one should not disregard issues involved in cost analysis and cost-effectiveness calculation. In line with the above, it seems that LCA appraisal should be supplemented by cost analysis in the form of Environmental Life Cycle Costing (ELCC). Such approach will help determine correlations between a product’s impact on environment and any cost related to such impact. This, in turn, offers the potential to determine raw resources needed to support the product in its full cradle-to-grave cycle, as well as ensure the sustainable use of such resources. Modern products should not be viewed solely in the context of a self-contained commodity, but also correlated with any processes involved in their life cycle. ELCC offers notable benefits in such applications as design of technological processes, making informed management decisions for rational use of internal resources of economic entities and optimization of compromise between environmental care on the one hand and economic, business and social aspects on the other. To put it in global context, ELCC-based information offers the prospect of making knowledgeable decisions in the context of sustainable development (of both production and consumption).

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CALCULATION OF THE SOCIAL CAPITAL INDEX ACCORDING TO EXPERT EVALUATION DATA

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Abstract

The scientific paper was worked out applying the monographic, calculation, and constructive methods. The author of the paper studied social capital at macro and micro levels, its impact on the regional economy, and the relation of social capital to other kinds of capital, calculated quantitative and qualitative indicators of social capital for municipalities in Pierīga region, their sub indexes, and a total index of social capital (TISC), and made conclusions. The author processed the data obtained, including the quantification of qualitative indicators. The research showed that the amount of social capital can be characterised quantitatively.

Keywords: *social capital, municipality, sub indexes of social capital, index of social capital.*

Introduction

Economic processes require various resources – land, labour, capital, entrepreneurial ability, and information – to produce goods and services. Capital is understood as the means of production that was created by people to produce goods. Additional income can also be gained by using mutual relations of a company's owner and employees, reciprocal trust and social networks that form social capital. These networks are of great importance in enterprises and municipalities.

Any social group has its own individuals among which cooperation norms and social networks function. Social capital means strong and trustful relations or ties in society. Social capital is the ability of individuals to fit in the given economic, social, legal, and political structures through social networks, to effectively use and improve this ability, thus gaining benefits for themselves, enterprises, and society. (Igaune 2010) Social capital can be defined as social relations in society. They emerge from the existing society and mutual social interactions and economic relations which promote long term relations and reciprocal trust. Social capital is specific to individuals, their groups, and society, and it is an important element in competitiveness and economic development. Society as a group of individuals and enterprises is an important means to create necessary conditions for social capital.

It has to be admitted that new conditions start emerging in economic development in Latvia, too, in which human intellect and creative abilities of individuals become a significant factor. The most important factor in any society's development is the way individuals interact, cooperate, and solve mutual conflicts. This aspect of society, which is called by scientists the social capital, cannot be assessed by usual statistical indicators.

Official government networks relate to the legal system, police and national internal security, social care, employment service, and the central and local governments. Unofficial networks relate to friends, families, acquaintances, one's own actions, neighbours, and unofficial social circles.

There is an important conclusion that "social capital created by the engagement of individuals in public networks can polarise society just like different incomes. Individuals with higher education, larger income, and abilities can easily achieve their goals, as they know that they exploit the advantages of networking for their own benefit. Individuals who are able to formulate own goals, unite resources to achieve these goals, and can financially afford to network more than others and believe to this process just do it and make success". (Igaune, 2010)

The **research aim** is to investigate social capital at macro and micro levels, its relation to other kinds of capital and to estimate approximate quantitative values of social capital for the municipalities of Pierīga region.

The research method for calculating the index is analogous to the one used to calculate the development indexes of Latvia's territories. (Dažādā Latvija 2005)

The data source is a survey of municipality heads as experts.

Limitations. The result gained in the present research can be attributed to other Latvia's regions only methodologically. Within Pierīga region, too, a representative population sample was not selected, but only even distribution of respondents in the territory was taken into account.

To achieve the aim, the following research tasks were set forth:

- researching social capital and its relation to other kinds of capital;
- selecting the basic indicators that specify social capital both quantitatively and qualitatively;
- selecting the experts, respondents and conducting a survey, processing the data obtained, including the quantification of qualitative indicators, calculating two subindexes of social capital and the total index of social capital (TISC);
- assessing the numerical results.

Materials and methods

To achieve the research aim and execute the tasks, first of all, various scientific literatures on social capital were reviewed in a monographic way. Laws and their application

concerning the administrative and territorial reform were investigated. Scientific papers, publications, scientific books were used. It was important to identify the quantitative and qualitative indicators of social capital to calculate two sub indexes of social capital and the total index of social index in the municipalities of Pierīga region.

Results and analysis

1. Social capital and its impact on the regional economy and its relation to other kinds of capital

Social capital is based on an idea that social relations and norms can provide an opportunity to raise the wellbeing of families and promote the economic development of enterprises or even regions or countries. (Knocke 1999) Although the researchers (Burt 2000) conclude that social relations have a significant impact on economic successes and a good theoretical and empirical justification, yet the role of sociological factors in tackling development problems in a regional economy is unclear. One of the problems is that there is a lack of necessary indicators in statistical data bases when analysing the role of social capital in development. Economic and institutional development of a country impacts social capital. Regional development can be measured using economic growth indicators, mostly gross domestic product (GDP) growth (as well as GDP per capita).

All the basic kinds of capital (financial, physical, and human) only partially determine the process of economic growth – they mutually interact, impact the development of enterprises and regions. In an enterprise, as well as at the local and regional level, social capital can be called “features of social organisation, for instance, reciprocal trust, action norms, and cooperation that can improve the effectiveness of society by promoting coordinated activities. (Castle 2002, Wolz, Fritzsche, Reinsberg 2004, Piazza-Georgi 2002, Portes 1998) There are authors which believe that social capital and general social trust to politics increase only if political power is decentralised. Decentralised power means smaller possibilities to do egoistic activities, as it is more difficult to do it.

At the international level, too, researches on regional economy and social capital have been done, for instance, in Finland (Lisakka 2006), France, the USA, the EU, and elsewhere. These researchers point that it is more difficult to identify reliable social capital indicators at the regional level than at the national level. Activities and opinions of individuals are usually found out as well as organisations are surveyed in researches (civil society level). Studies on enterprises are burdened by the fact that enterprises have or might have several affiliates in various places.

Regional economy studies in Finland showed that positive and negative aspects of social capital have to be included for a complete analysis. (Lisakka 2006) Maria Semitiel Garcia (2006), in her turn, says that traditionally, an entire country is researched in economic studies without analysing its regions in detail. (Garcia 2006)

However, only economic factors are mostly analysed in such studies, and no social, geographic, and historical aspects of economic systems and processes of regions are addressed. In her work on social capital and regional economic systems, Maria Garcia also points that the term social capital promoted analyses of the role of networking in an economy, taking into account the social character and relations of economic agents.

It is difficult to identify social capital indicators at the regional level. The problem is that there are many ways how social factors can impact economic activity, and the positive and negative consequences also have to be taken into consideration. (Callois, Bertrand 2005) These scientists offer a way how to analyse the main mechanisms of “social density”.

“Social density” is defined by scientists as social interaction and social action norms and values in a region. Similar mechanisms are described by R. Burt (2000). He also stresses that the negative mechanisms of social relations are mostly based on the lack of openness. Openness creates new ideas and possibilities, extends competition, and thus reduces reluctance in business and the influence of secret agreements on economic activity in a region. Contacts are made among very different employees who are “impermanent in time”, yet strong enough to give or get information and support even outside a region’s territory. (Igaune 2010)

Social capital is as important as other kinds of capital in analysis of small business and entrepreneurship. (Westlund, Bolton 2003) One of P. Krugman’s ideas is that regional specialisation is quite “permanent”, yet more developed regions try to adapt to new changes. There are many examples about previously successful industrial regions that did not follow changes in the economy. The social capital of these regions consists of the norms, values, and knowledge that once promoted the development of their industrial structure; however, in a long run they started conflicting with the present and emerging economic structures. As an example, the region of Ruhr (Germany) or the region of Lolland (Denmark) can be mentioned where businesses were hampered by the traditional lifestyle of labour force and the self-employed. (Westlund, Bolton 2003)

Although social capital is sometimes regarded as a “public benefit”, it consists of “economic benefits” at various levels (macro and micro) which, depending on goals, impact the economic system of a region and the processes taking place in it in various ways. The author also concludes that social capital can be productive, but sometimes it can be unproductive.

If social capital is defined and analysed as an “instrument” for increasing wellbeing, the author concludes that a vice versa situation is possible – the use of social capital can be a reducing “instrument” for society’s wellbeing. In the same way as physical capital that can be exploited both for good purposes and bad ones depending on conditions and an employee’s actions, social capital is not an exception. Scientists assume that social capital has a positive impact, for instance, R. Putnam. (Putnam 1993, Putnam 2000) Many empirical studies prove a positive correlation between social capital indicators and

such facts as a crime rate, health condition in society, government effectiveness, as well as to a great extent economic development. (Knack, Keefer 1997)

There are several mechanisms through which social capital impacts economic growth. For instance, in R. Solow's economic growth model (Solow, 1956), output is a function of technology, physical capital, human capital, and, in the newest variants of the model, social capital as well. In such models, social capital can impact output by changing the way of using technologies. A high level of social capital allows introduction of technologies earlier, and therefore faster and sooner technological progress can be observed in a national economy. If the level of social capital is higher in a region, economic growth in it will also be faster. Moreover, social capital can impact other kinds of capital that affect economic growth. Social capital has a positive impact on human capital, raising the level of knowledge and education. Yet it is important to understand that social capital in itself has a limited value if it is not combined with other kinds of capital. Social capital makes the other kinds of capital more effective, for instance, human capital.

Social capital is a complicated phenomenon with large differences in various regions within one country. When conducting a study on social capital, economic growth, and regional development in the USA, S.Iyer (Iyer et. al. 2005) found correlations with several indicators:

- education is an important factor correlating with a higher level of social capital;
- a similar relationship was observed for income, but it has to be mentioned that it was a nonlinear correlation, as rich people either participate less in any activities or dedicate less time for these activities, for instance, there are no investments in social capital based on reciprocal trust in organised activities and informal social events. Employment, too, forms social networks and increases both social and racial trust;
- if individuals have their own house or they live in a particular place for a long time, it increases their social capital. It stimulates individuals to dedicate more their time to forming social networks and to join them;
- age of individuals is important – the older are individuals, the more social capital they have compared to young individuals. Very old people are an exception, as they are less able to engage in formal organised activities, instead, they engage in informal social networks and social events based on religion;
- if a territorial aspect is analysed, the level of social capital in towns is lower than in rural areas, although not always it was essential for all the indicators of social capital. The study in the USA showed that regional factors are important for many indicators of social capital.

It can be concluded from the American study on social capital and regional development that one has to act very carefully regarding national policies, yet there are a few very safe activities. First, investments in education can be very effective to

raise the level of social capital. Second, being at work is an important source of social capital. It has to be taken into account that by creating new jobs, a greater benefit is gained than the material values provided by this new job and vice versa – if jobs are eliminated, a loss has to be viewed through a wider prism. Third, creating social capital is related to the length of period people have spent in a community. Therefore, labour migration has a negative impact on social capital, and it is a problem for regions whose economy depends on mobile labour force. Fourth, the more apartments are owned, but not rented, by individuals, the more it develops social capital.

A great role is played by social norms in reducing production costs. Based on social norms, a business partner has a notion of how a transaction has to be made and what it could cost. Costs of transactions are reduced in well-developed networks owing to the fact that individuals who are well acquainted with each other spend much less time and material resources in searching for contacts, which is important from the economic point of view. Besides, networks can strengthen social control mechanisms, thus promoting reciprocal trust. If reciprocal trust is viewed as a result (consequence) of the mentioned social norms and networks, it is essential in many cases when transactions are made, for instance, in making transactions between enterprises (if there is insufficient information) or for individuals' attitude to law enforcement institutions, local government officials, etc.

In microeconomics, the impact of social capital becomes apparent at the individual level. At the macro-level, social capital becomes apparent in production organisation through the roles of formal institutions, legislation, and the government. (Grootaert, 2002) Social capital impacts business among individuals, households, and enterprises. It takes place in three ways:

- participation of individuals in social networks increases an amount of information and reduces its price. It relates to formal and informal organisations, especially when the use of information provides a possibility to raise incomes;
- participation in local networks, and reciprocal trust allows any group to achieve its goals, for instance, businessmen can influence their price policy more if they get united;
- networks and mutual relations influence various behaviours in an enterprise. Social pressure and fear to become an “outcast” might force individuals to act in a positive way for the enterprise. (Wolz et.al. 2004) Yet not always the interests of this group match the interests of society, for instance, in case of a closed political environment in Latvia. (UNDP 2003)

Sometimes social capital can be a basis for social and government power relations that hinder production. The corruption of government officials – bribes, abuse of official position in one's own interests, appropriation of public funds – is regarded as one of the most striking features and manifestations of social capital degradation. Given the fact that social capital provides benefits for those who are in engaged in a network, the

further distribution of these benefits depends on goals of the network of enterprises. It is possible that the implementation of goals of enterprises takes place at the expense of a larger part of society. “Strangers” usually are not allowed to join such closed networks.

The most influential economists tried to discuss the term social capital only in the middle of the 1990s. (Coleman 2000, Fukuyama 2001, Fukuyama 2002) There were not many attempts to integrate social capital into economic theories, for instance, P. Dasgupta (2000) and E. Ostrom (2000) provided a significant contribution. One of the leading development economists R. Solow (1997) even doubted whether social capital can be analysed within the same conceptive scope as all kinds of capital.

J. Coleman (1990) stresses a difference between social capital and private resources when he talks about social capital as a public benefit or good, respectively, it forms “social structures in which an individual is engaged” and that “social capital is not private property for an individual who benefits from it”. (Coleman 1990) According to J. Coleman, social capital is formed of actions (use) in a group (and among groups). P. Bourdieu, in his turn, believes that external networks of groups of individuals provide access to social capital. P. Bourdieu regards social capital as a resource that is *gained* through social ties, while J. Coleman stresses that social capital consists of ties within networks of groups and among these networks. The author believes that human capital is an individual resource and belongs only to individuals, whereas social capital exists in the relations among these individuals, therefore, it is social.

E. Ostrom (Ostrom 2000) who mostly researched the developing countries analysed social capital together with natural, physical, and human capitals. She concluded that all kinds of capital are necessary for economic development of a country or a region. In her researches, she concentrated on the kinds of capital created by humans themselves (social, physical, and human capital) and their mutual relations. Defining social capital, E. Ostrom mentions institutions, too, along with reciprocal trust and norms of mutual relations. Formal and informal rules are meant by them: networks and institutions contribute to the formation of reciprocal trust and norms of mutual relations and indirectly influence collective actions by it. Regional and national institutions, according to her, are “frameworks” for individual choices, the formation and changes of local social capital, as well as for tackling problems of collective actions. (Igaune 2010)

It is possible to compare social capital with other kinds of capital in the aspects that are significant for businessmen: productivity, accumulation, property rights, complexity and levels of aggregation. (Westlund, Bolton 2003)

Productivity. Both J. Coleman and R. Putnam (Putnam 1993, Putnam 2000) believe that social capital is productive, yet A. Portes and P. Landolt (1996) emphasise that social capital can produce a negative result. One of the theoretical explanations is that not always any capital or factor of production produces goods; the same relates to social capital. (Collier 1998, Ostrom 2000) Unbalanced investments in real capital and

social capital can cause a decrease in incomes. Keeping strong social ties sometimes could be too expensive.

A detailed answer can be given based on the theory of modern economic networks. Economic networks can be regarded as capital, in which investments are made. One of the purposes of investments is to gain or provide a certain share of market. By creating relations with customers in various ways (advertising, personal contacts, service agreements etc.), a firm tries to exclude its competitors from a network that was established by it. In this way, similar networks with suppliers can be established. An existing firm with strong customer and supplier networks can use them to prevent new and more productive capital from entering a market. This new and more productive capital has to find new undeveloped market segments or to break the customer and supplier networks of old capital in order to enter the market.

Relations between “positive” and “negative” social capital can also be analysed. Capital (except financial capital) is related to time. The social capital of groups or regions, which is considered negative from the point of view of society, becomes apparent at a certain moment as a rational decision to protect and strengthen group interests. If it does not change along with the changes taking place in society, it becomes outdated and unproductive until vanishes at all. If the outdated social capital is maintained and renewed, it becomes productive. It can be compared to other outdated kinds of capital that block resources that could be used in a more productive way.

The discussion that was described before refers not only to the regional, but also district level. Even countries or country groups can be analysed as entities in which social capital, which promotes or hinders business activity, dominates.

The author concludes that in general at the social level, “negative” social capital is less productive than “positive” one and, it is possible, even unproductive. At the individual (micro) level, there is a probability that social capital meets the needs, which cannot be satisfied by weaker (in this region) “positive” social capital, sufficiently. Using social capital for positive or negative purposes depends on whether a group’s goals match the interests of society. The goals of a group that had positive social capital for a certain period might start conflicting with the new goals of society due to some changes in society, while the group’s goals remain the same.

The author analyses the accumulation and maintenance of capital. Various forms of capital are shaped by using the basic capital, the other kinds of capital, and their combinations. Financial, physical, and human capitals are needed for each other, and social capital is also necessary to implement and accumulate them. Human capital can be accumulated without direct interventions of financial and physical capitals, but it is not possible without social capital. Many social capital forms are less dependent on financial and physical capitals than human capital. Yet a few kinds of capital facilitate the creation of social capital (investments of funds in projects that are socially

significant for the majority of society). Human capital assists in creating social capital in various ways. However, the time of individuals is mostly invested in social capital.

How “public” is social capital depends on the part of social capital that shapes external ties among various social groups and strata. A large amount of positive ties make social capital more public and homogenous. The largest part of negative ties creates heterogeneous social capital which is divided among groups and is “public” only for any particular group. In other words, there is a certain relation between social capital producing public benefits and its productivity. In both cases, ties among groups in society determine the strength of the impact of social capital in that particular moment.

Kinds of capital differ in the extent of their complexity:

- financial capital is the most homogenous and differ only in various units of money;
- physical capital becomes apparent in the form of land, equipment, machinery, etc. There are many large differences among the forms of physical capital, yet there are common features among these forms;
- complexity of human capital is related to the fact that no two identical individuals exist.

Any individual participates in social interactions as an agent in an infinite number of variations between mutual relations and networks, besides, there is no two individuals with the same wishes. Therefore, social capital can be regarded as the most diversified kind of capital.

The differences in four approaches are mostly based on aggregation levels. Individual social capital defined by G. Becker is individual, it cannot be consolidated, yet it is possible to specify a result of using this individual social capital. J. Coleman’s [2] approach stresses differences between networks and individuals. According to R. Inglehart’s approach, networks are permanent, and it is possible to measure the reciprocal trust of individuals. To integrate these individual values into a single social capital value at the macro level, they have to be measurable.

The next level of social networks is local groups of individuals that are equaled to an enterprise whose social capital is highly homogenous. These local groups and enterprises have merged with horizontal external ties and collectively shape local spatially interrelated social capital that is less homogenous than an individual enterprise. Unlike a group, a place is not related to decision-making, yet the social networks of a place create opportunities and constraints that impact decision-making individually, in groups, and in enterprises. Local groups, enterprises, and places have also vertical ties with individuals at the regional level. Social capital at the regional level is less homogenous than at the local level, and it creates opportunities and constraints at these levels, influencing decision makers.

Differences in homogeneity among the various levels of social capital cause problems in consolidating social capital. Knowledge on ties among points of intersection not always reveals everything about ties at a higher level. Information about ties between

two levels cannot be useful in relation to all ties among other levels. Several authors (Glaeser, Laibson and Sacerdote, 2000) admit it by pointing that “complexity of aggregation means that the elements of social capital not always determine social capital at the level of society”. The author agrees with this very important conclusion that has to be taken into account in empirical studies.

M. Woolcock (1998) uses the terms “binding” and “bridging” ties, describing the ties that are called internal and external ties. Yet he describes a situation when binding external ties among groups within the same level cause, at the same time, binding internal ties in this level in relation to a higher level (region). An assertion that external ties, from a higher level, are regarded as internal ties is one more illustration for the problem of aggregating various levels of social capital.

Therefore, a crucial factor, from the point of view of homogeneity, is external ties among individuals, among respective levels, and within the levels. In cases when individuals have weak or negative ties among themselves, for instance, among various firms, local social capital will be less strong and homogenous. R. Rose (1998) describes close networks of small groups (families, neighbours, etc.) that serve as a compensatory mechanism for the lack of positive ties between these small networks and the entire society.

One extreme is the lack of positive ties or the presence of negative ties among individuals and levels, but the second one – the existence of too close ties that resist any necessary changes. Therefore, too weak ties cause heterogeneity risking turning into disintegration, but too close ties cause homogeneity retaining inelasticity and resistance to change. Theoretically, there is a possibility for optimum balance between the homogeneity and heterogeneity of social capital at any level and between any levels.

Various kinds of capital cause different effects. Financial capital causes a result – financial capital – that can be consumed or invested. Physical capital relates to output of products that consists of goods that can be consumed or invested in new physical capital. Neither financial nor physical capital nor social capital, too, can exist and be accumulated without human capital. Therefore, investments in human capital make an active contribution to the other kinds of capital.

The author believes that human capital mostly creates social capital, too, and makes an essential contribution to the other kinds of capital. Based on J. Coleman’s [2] perspective, P. Collier (1998) identifies three effects of social capital that became apparent as external: a) social capital consists of knowledge that is distributed and exchanged in social networks, thus raising the level of social capital; b) it increases mutual trust among individuals, thus assisting in reducing production costs in an enterprise that has a possibility to gain a larger profit for development; c) it increases common action capacity. To control the behaviour of individuals, social norms and rules are established.

R. Bolton (1999) believed that in spatial or territorial perspective, consumer and producer surpluses make up a place surplus. He wrote about producer surplus (profit), analysing the role of social capital in it.

Social capital impacts producer surplus (profit) in two ways. The first one is observed owing to costs of and incomes from supply (costs are defined as transport, production, and development costs). The second one is observed owing to the impact of social capital on human capital.

Social capital has a direct impact on transaction cost. It impacts the flow and amount of information and, therefore, the costs related to information and search for it. It also influences mutual trust among agents and, therefore, a contract price. Supply cost is also impacted by social capital directly through cooperation and the extent of trust that dominates both in a firm and among firms.

2. Selection of the basic indicators indicating the amount of social capital both quantitatively and qualitatively

Amalgamated municipalities were established also in Pierīga region on 1 July 2009. To research the performance prospects of the newly established municipalities, the conditions for forming and using social capital were ascertained. An election was held in the municipalities, and their heads were elected. To ascertain the role of social capital in developing the municipalities, 12 heads of municipalities were surveyed in the present research.

According to the scientific literature, R. Putnam (1998) from the USA has most succeeded in assessing social capital. He identified 14 main indicators that characterised social capital from various aspects. Mostly quantitative indicators of facts were among them, and a few were qualitative indicators. He did not show how to make a common indicator from them – a social capital index or another one. Besides, the indicators selected by him are more suited for the USA and less appropriate for Latvia. (Igaune 2007, Igaune 2009, Igaune 2010) There are differences in measuring the aspects of social capital in regions in the world, for instance, scientists mostly try to determine a development level of civil society in Australia, population health and social capital related to it is studied in Great Britain, while in the USA – regional development and the relation of income to social capital, in Europe scientists try to identify the relation of human capital to social capital, and in Eastern Europe – general development of the post-communism countries with social capital elements, especially reciprocal trust, feeling of safety, or attitude to government policies and its institutions.

To calculate a total index of social capital (TISC), the author selected social capital indicators which are characteristic of Latvia's municipalities, taking into consideration the opinion of experts. So far social capital was not researched quantitatively, therefore, the author chose a method to determine social capital quantitatively.

When the survey was conducted, there were 27 municipalities in Pierīga region, of which 12 were selected for the survey. Since the general population and the sampled population for the survey were small, it was not useful to apply a method of random sampling with a subsequent calculation of sampling errors. Expert groups were selected almost purposefully – not the full representation is provided, but only the representation of interested organisations and groups was targeted. In the expert group, the municipalities included 68% of all the residents of Pierīga region. Due to the specific content of questionnaires, the respondents preferred to be anonymous, and their wish was fulfilled. This method for calculating a TISC provides only an idea – a provisional draft for quantifying the qualitative indicators.

The author selected 15 basic indicators of social capital, of which 9 were indicators of numerical values, while 6 were indicators of quality. The qualitative indicators are as follows:

- number of the working age population per 1000 residents in a municipality;
- average number of social events over the recent 3 years;
- number of individuals participating in nongovernmental organisations per 1000 residents;
- approximate number of individuals who are in charge of an NGO or a committee in a municipality;
- number of cooperatives in a municipality;
- number of NGOs in a municipality;
- approximate number of families in a municipality;
- approximate number of participants of cultural and sports activities in a municipality;
- number of libraries in a municipality.

The respondents provided their answers in terms of approximate values, using their own knowledge. No problems emerged. The quantitative indicators are as follows:

- rating of economically active enterprises;
- rating of trust in institutions;
- rating of cooperation (social networks);
- rating of public activity of residents in a municipality;
- rating of public traffic in a municipality;
- rating of crime in a municipality (negative social capital).

The respondent's answers were drawn by applying the visual and graphic method. It means that a 10 cm long horizontal line segment was drawn next to any question in the questionnaire; the left extreme point corresponded to the value of minus 1, but the right one – to plus 1. The respondents drew a vertical line across this horizontal line, which visually showed their rating of the situation in their municipality. However, the value of minus 1 can be interpreted as “very poor”, whereas plus 1 as “very good”. Afterwards, the answers chosen by the respondents can be determined in this line segment in terms of value by reading the point of intersection of lines on the ruler. An

advantage of such assessment is that a respondent can choose any rating from minus 1 to plus 1, not only the fixed ratings. Owing to such an assessment, it was expected that a number of neutral answers would significantly decline (see Fig.1). (Igaune 2010)

The indicators with quantitative answers were processed by the general statistical methods, depending on the content of an indicator. An average or a weighted average value can be calculated for the answers and the experts can be grouped according to the indicators included in the questionnaire form or obtained from other information sources. The smallest and greatest fixed values can be assessed etc.

Source: developed by the author

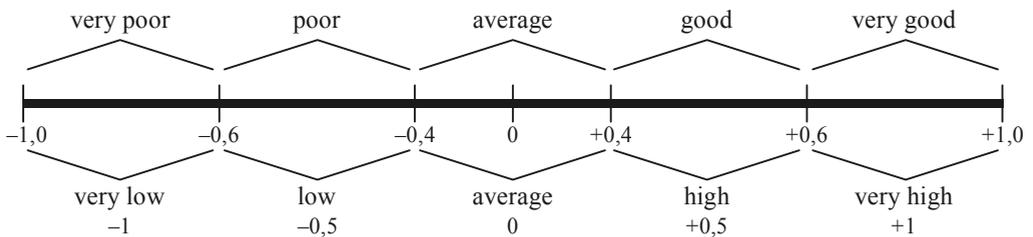


Fig.1. Possible grouping of respondents' answers

3. Processing the data obtained, including the quantification of qualitative indicators, and calculating a subindex and a total index of social capital

Two social capital subindexes (quantitative and qualitative basic indicators) as well as a total index of social capital (TISC) synthesising them was calculated according to a methodology, approbated during a ten year period, for calculating territorial development indexes. It is described in several publications, for instance, the monograph “Dažādā Latvija”. (Different Latvia, revised edition 2005: 35-42, et al.) Small changes were necessary in the methodology in some cases which are discussed further in the text.

The subindexes of social capital are calculated from the basic quantitative indicators according to the respondents' answers in a questionnaire within a range from one to nine. Since the basic indicators are expressed in various units of measurement, they are made comparable by standardising them according to a formula: (Igaune 2010)

$$t = \frac{x - \bar{x}}{s}, \tag{1}$$

where:

t – standardised value for a particular basic indicator;

x – standardisable indicator measured in its specific units;

\bar{x} – arithmetic average for the respective indicator;

s – standard deviation for a series of data (in this case 12 municipalities).

According to the experts, all the basic indicators do not play equal roles in forming social capital. Therefore, the respondents were asked to set a proportional weight for each basic indicator in the questionnaire. For this reason, one of the two options has to be chosen in the further calculation:

- to use the proportional weights set by the head of each municipality (as in the Ph.D. paper of the author);
- to calculate an average value of the proportional weights set by all the experts for each basic indicator and to use the average values then in the calculations for all the municipalities.

Each way of calculation has its specifics that require a deeper analysis (it is not included in the paper).

If proportional weights of the basic factors are transformed in a way that their sum is equal to 1, the subindex of social capital for any particular municipality can be calculated by a formula (2):

$$I = t_1f_1 + t_2f_2 + \dots + t_kf_k, \quad (2)$$

where

i – subindex of social capital in a municipality,

$t_1 \dots t_k$ – standardised basic indicators of social capital,

$f_1 \dots f_k$ – proportional weights of these indicators.

The expert survey's answers on qualitative questions were processed after they were quantified by reading off the visual and graphic pictures on the ruler. Afterwards, the gained result was processed by the same standardisation methods described in the previous chapter. However, before it, it was useful to change the scale for the data.

As we know, data of quantitative observations usually shape a distribution that is close to a normal one. In such a case, the data after their standardisation fit in the variation range from -3 to $+3$, and only if an assumption on the initial normal distribution of data turns out to be wrong, the data shift outside this range (-4 to $+4$), or shift out even more in case of artefact.

However, the variation range from -1 to $+1$ was already set for quantifying the qualitative answers. If it is processed without a correction, the qualities of the qualitative and quantitative subindexes of social capital would be different and their comparison and unification into a total index would be difficult. To unify the variation ranges for the standardised data of both basic indicators, the scale was changed: the quantified data of the qualitative basic indicators were multiplied by 3.

4. Assessment of the numerical data gained

The main results of the research are summarised in Table 1. Its Columns 2 and 3 shows the sub indexes of social capital for all the 12 municipalities.

To obtain the total index of social capital (TISC), these sub indexes may not be summed up directly, as this sum will not have the qualities of this index. A weighted arithmetic average of these sub indexes has to be found by using the experts' proportional weights for each sub index. To simplify the calculation, the proportional weights have to be set in a way that their sum is equal to 1. In this research, the proportional weights for the sub indexes or groups of basic factors were set by the author of the paper as an expert, setting a weight of 0,4 to the group of quantitative factors and a weight of 0,6 to that of qualitative factors. Further, a question on these weights could be included in the survey questionnaire, and the average values of all answers received have to be calculated.

The sub indexes in Columns 4 and 5 in Table 1 are multiplied by the chosen proportional weights, obtaining TISC components or addends. Their sum (last column) is the total index of social capital.

After evaluating the logical result, one can be convinced that this index is positive for approximately a half of the municipalities, negative for a half of them with an average value of close to zero. All the indexes fit in the range from -1 to $+1$. It means that the heads of the municipalities had about the same opinion when rating. The permissible variation range was wider: from -3 to $+3$. The sub indexes of several municipalities fit in this range: the quantitative factors are within a range from $-1,3$ (rounded off) to $+2,1$, while the qualitative factors are within a range from $-1,6$ to $+0,7$.

The anonymity of the municipalities prevents from a more detailed analysis of the result. If it is allowed to disclose the name of municipalities, it would be possible to find out whether the TISC correlates with the size of municipalities (area, number of population), their geographical location (distance to Rīga), the presence of a town in the territory of municipalities etc. These problems could be partially solved even by retaining the anonymity if the questionnaires were received from all 109 Latvia's municipalities.

Basic features of the social capital index. An average social capital index for all its units in total (in this case 12 municipalities) will always be equal to zero. To retain this quality for the entire further analysis, ratings and additional calculations have to be done only within this population sample. If other municipalities are added to this sample (for instance, municipality No. 13), all the calculations have to be redone. Intermediate results of a previous study may not be used to calculate a social capital index for municipality No. 13, for instance, arithmetic averages and standard deviations of the basic factors. After redoing a calculation, not only a value of the social capital index of municipality No. 13, but also values of the indexes of the first 12 municipalities have to be calculated. These values will more or less diverge from the values of indexes calculated before.

Table 1

Subindexes of social capital, components of the total index and the TISC for 12 municipalities in Pierīga region in the research of 2009

Number of municipality's total index	Subindexes of quantitative factors	Subindexes of qualitative factors	Components of quantitative factors	Components of qualitative factors	TISC
1.	-1,261	+0,317	+0,788	+0,122	+0,91
2.	-0,438	-0,16	+ 0,474	+0,434	+0,908
3.	-0,337	+0,051	+0,842	+0,041	+0,883
4.	-0,319	+0,77	+0,008	+0,425	+0,433
5.	-0,224	-0,282	-0,128	+0,462	+0,334
6.	-0,189	+0,291	-0,076	+0,175	+0,099
7.	-0,109	-0,027	-0,044	-0,016	-0,06
8.	+0,012	-1,563	-0,135	+0,031	-0,104
9.	+0,021	+0,709	-0,09	-0,169	-0,259
10.	+1,185	+0,724	-0,175	-0,096	-0,271
11.	+1,969	+0,203	-0,504	+0,19	-0,314
12.	+2,106	+0,069	+0,005	-0,938	-0,933
x	0,4	0,6	~ 0	~0	~0

Source: calculated by the author using data obtained in the survey

Social capital indexes calculated for one group of statistical units (12 municipalities of Pierīga region) are not comparable with indexes calculated for other similar groups (for instance, 12 municipalities of Vidzeme region). The reason is that an average social capital index of both groups is centred towards zero, although it can be expected both logically and professionally that it has to be greater for the first group (in Pierīga region). Distributions of both indexes according to qualities of asymmetry could be compared on certain conditions; it can be expected that stratification by wealth in Pierīga region will be greater than in Vidzeme region; therefore, a part of Pierīga region's municipalities will have not only greater positive index values, but also greater negative ones for counterbalance. A distribution of the indexes in Vidzeme region will be closer to a normal one.

An analysis of the indexes can be started after the indexes of territories are arranged in a descending order. In the same way, the 12 municipalities included in the research can be arranged, and it is ascertained in which of them social capital is greater and in which – smaller.

A social capital index (more precisely, a total index of social capital) can be divided into components according to the selected basic factors or their groups. One can make a conclusion on which basic factors are stronger and which ones are weaker in each municipality. However, it is difficult to make a conclusion on which basic factors are

dominant in general or in the majority of municipalities, as it depends very much on proportional weights set for each basic factor by the experts.

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A social capital index is actually based on expert ratings. An impact on the result depends mostly on:

- what basic social capital indicators are selected;
- for what groups of municipalities indexes are calculated, for instance, all Latvian municipalities, municipalities of a particular region, urban municipalities, or rural municipalities;
- what significance scale is chosen for each basic factor or their group.

Therefore, the index values cannot be regarded as absolutely useful, but it has to be evaluated by experts before making any decision whether the values are not in contradiction to traditional views on a municipality.

If the social capital index of a municipality exceeds an absolute value of 3 or especially 4, it is advised to evaluate it only qualitatively: very large or very small. From the formal point of view, it is an artefact and, as a qualitative indicator, does not convince anyone to make a decision. It is advised to ascertain which basic factor comprises artefact values in the total index, and a decision has to be made depending on it.

The research has proved that the amount of social capital can be expressed quantitatively, presently, by indicators that are useful only for making comparisons, thus, for performing limited professional tasks. It is useful to continue such studies.

Conclusions

- 1) As a result of analysing the impact of social capital as a factor promoting development, it was determined that social capital impacts the region's development: investments in education raise the level of social capital, employment forms social networks, the real property of residents and living in a certain civil parish, and the age of residents and their engagement in formal organised activities increase social capital.
- 2) It is possible to compare social capital with other kinds of capital in the aspects that are significant for businessmen: productivity, accumulation, property rights, complexity and levels of aggregation.

- 3) If making a next study, the number of territories – municipalities – has to be increased in the study.
- 4) The list of basic indicators has to be defined more precisely and supplemented.
- 5) Quantitative indicators, if possible, have to be obtained from CSB data bases, not by carrying out a survey.
- 6) After gaining sufficient experiences and after government institutions become interested in such results, it is suggested to make surveys official by removing the confidentiality status from answers in questionnaires. Only then the results can be used for the needs of state administration.

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RESEARCH OF THE SOCIAL CAPITAL OF LATVIA

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Abstract

The scientific work was accomplished by the monographic method of research. There were explored many important works of scientists. Until now there is not a lot of research of this theme in Latvia. The civil society encourages democracy, enhances and mobilizes the social capital, encouraging citizens' cooperation and synchronized action for the common good, helps to resolve citizens' problems. The civil society development in Latvia is at early stage. There was researched the concept of “social capital” in different Latvian and foreign scientists' works. There were considered several researches about the social capital indicators and their application in the Latvian economy. The was analyzed how residents of Latvia cooperate in formal and informal networks for their and society aims, encouraging the social capital. The authors concluded that the social capital in Latvia has a tendency to develop and that development of social contacts and networks is not analyzed and researched enough yet.

Keywords: *social capital, civil society, networking.*

Introduction

Each social group has its own range of people among whom the norms of cooperation work – social networks. The social capital means strengthened, confidence permeated relationships or ties in the society. Thus the social capital can be defined as social relationships. The social capital arises from the formed and existing cooperation, from social mutual interaction and economical relationships – it cultivates long-term relationships and trust. Every person, group, all society has the social capital and it is an important element of competitiveness and economical development. Society as set of persons and companies is important instrument for necessary circumstances for the social capital.

The level of the social capital in society of Latvia is rated as insufficient. This amounts to the decrease of economical efficiency in the population generally and social exclusion in particular. The gap between big cities and rural living areas and their dominant society increases. One of the main paradigms of the European Union is to reduce differences between regions and for that there is allocated the important financial support. Doubts appear more often – is this money spent for necessary reasons. The successful market economy in regions cannot exist without the support of increasing of the social capital in the society. In process of summarizing recommendations of a many authors (Portess 1998, Putnams 1993, 2000, Fukujama 2000, 2002, Piazza-Georgi 2002) we have found that the social capital can be characterized and defined in such version: “The social capital is residents’ ability to participate in the economical, social, juridical, political structures with the help of social networks to get profit for themselves, society, company and to use and develop them efficiently.” (Igaune 2010)

In the world most developed countries the industrial age is being replaced by the access age, there happens the transition to the so-called experience economy where the role of traditional economical recourses is being reduced. The bigger accent is put on the intellectual capital. Network takes place in the market, very important role is played by the accessibility. The new reality of economy makes society to think about the obligations and restrictions what is going to define the relationships of society in future.

There are several methods of researching the social capital. Social networks and civil society standard development is being assumed as the social capital. Many authors in their works describe the social capital as unified indicators which characterize and predict the development of the society in the future. The concept of the social capital can be used for characterizing some parts of the society and predicting its development. Theoretically every person, family, group of persons with similar interests, company, administrative territory, country has the social capital.

Aim of research: to research investment of Latvian scientists in the social capital researching.

Tasks have to be done to reach the goal:

- explore scientist researches about the social capital,
- explore the social capital which encourages or inhibits business;
- to analyze the investment of Latvian scientists in the social capital researching.

Materials and method

First of all, to execute the mentioned aim and tasks there was a research of various scientific literature about the social capital accomplished. There were used scientific articles, publications, scientific books. It was important to find out viewpoints of scientists from different countries about the social capital and the investment of Latvian scientists in the social capital researching.

Results and analysis

1. Scientists' research of the social capital

The concept of the social capital in scientific sources appears in the fifties of the 20th century and in the sixties it appears in the city sociology related to the mutual relationship research in modern metropolitan areas. In the seventies it was used by Glenn Loury (1977) who worked with research about the bondage and race discrimination as reasons to the large difference of revenue in the USA. Already during this early phase of discussions about the social capital it is characteristic that the authors use the same concept, but define it quite differently.

A. Portes (Portes 1998) defines the social capital as "participants' ability to provide themselves with some goods using the social networks or the social structure." Scientist Francis Fukuyama (Fukuyama 2001, Fukuyama 2002) did the research of company's market value changes before the merger offer and after the merger. Any company's market capitalization is the sum of the qualitative and quantitative values. In the quantitative values the researcher includes also the social capital of employees and management. Firm's repurchase price generally is bigger than its initial buying price. It can be assumed that the difference is the new owners' degree of belief that they will be able to manage the company better than the previous owners, if the rest of the values remain unchanged. In many cases the part of premium reflects the cost savings which the new owner hopes to get from expanding the company. This premium difference isn't only the social capital; it comes with the human capital as well.

The discussion is about the connection between the networks and the social trust, between both and the social capital in the most important dimensions. The discussion is about the mutually dependent relationships because in accordance with many investigations the relation is at least bilateral. It is often written about the "dark" side of the social networkings which can cause consequences that are not favorable for the country. Consequently, generated effect of the social capital depends on persons aims and environment that affects person's choice and interaction.

L. Hanifan (1916) when lecturing about integrity of the populated places which encourage development, called this phenomenon the social capital. She used this term as the opposite one to the economical capital. Jane Jacobs (1961) perceived the social capital as the populated micro-region societies' spontaneous product. She concluded that such social capital does serious work, for example, reducing the criminality, but the effect is very spontaneous, unplanned and random. In the current conception of the social capital the authors point to the deliberate and subconscious (random, spontaneous) aspects. Such social conception is new. The USA sociologist A. Portes (Portes 1998) defines that where the social capital is person's ability to manage the rare resources thanks to his own participation in the relationship networks or in some

social structures, this ability lies not in the particular person, it is in the person's relationships with others. The social capital is the result of obligations.

Lyda J. Hanifan (1916) was the first who reviews the concept of the social capital. Basics of the social capital theory were made by American scientists Robert Putnam (1993) and James Coleman (1988). But one of first who systematically analyzed term of the social capital was the French scientist Pierre Bourdieu. (Bourdieu 1986) He defines the social capital as the "undertaking of the social obligation" and states that "the given participant's quantity of the social capital is dependent on the network expansion which he can effectively mobilize and from size of the capital which he can get from every network element with whom he is related" (Portes 1998). So the social capital consists of such elements as: social relationships, quality and quantity of the resources. Whereas A. Portes notes that the conception of the social capital is not new. For example, the Chinese concept "*guanxi*" is very close to what we understand with the social capital and it is centuries old.

R. Putnam (1995) writes about the social capital that "the human capital refers to the persons, but the social capital refers to the relationships between persons, to the social networks and exchange of roles as the result of it". R. Putnam (Putnam 1993) states that the essence of the social capital theory is that persons, when trust each other, create and is being involved in the horizontal and mutual relationships of exchange.

2. Business encouraging and inhibiting the social capital

In the literature of the economic history there are mentioned two classic researches of the inhibition of the business in France. One is a D. Landesa's (1949) and another – E. Sayer's (Sayer 1952) researche. Both admitted close ties of the conservative families, which dominated unusually strong in the business, and in addition, were reinforced by other French social security system features.

J. E. Sayer noted that "the historical legacy of family rules of conduct were transferred to the French major business areas which were identified with specific families ", and that the most suspicious is an aggressive business, which requires the process of the 'creative destruction'. Social and economic institutions have supported the conservation of the manufacturers' or sellers' communities. (Sayer 1952)

Although the French example illustrates the main point, it seems that it is only one option. In other countries closely related families or small groups supported innovations in business. R. Lamb (1952) noted that "the businesses success are dependent on how well their values and activities are accepted by the society. They tend to operate in small groups and create their own value system." He points to the business history of the United States, admitting that these relatively small groups supported the business.

Often cited there is the empirical research of the relationship between entrepreneurs' motivation and their socio-economic environment of P. Dubini. (Dubini 1989) His studies of the Italian firms are important for two reasons:

- 1) he focused on the business firms rather than self-employed and small business properties, which are established with the main purpose – to make a profit and develop,
- 2) he developed the concept of the “rare and generous environment”.

The rare environment (the environment, which can be found to be rare) does not have an entrepreneurial culture, values, networks, special organizations or activities, which aims would be to make the new company's business and family business the innovative. (Westlund, Bolton 2003) It has poor infrastructure and capital markets.

“Lavish environment” is the one characterized as “a family business, a diversified economy, good infrastructure and skilled workforce, a serious financial community, government initiatives (incentives) to launch a new business.”

P. Dubini does not use the term “social capital”. It could be argued that the element of the social capital is included in the concept of “generous environment”, as he speaks of networks and family business. P. Dubini notes that access to other operators is a positive factor in the company which environmental assessment he studied. An interesting finding is that entrepreneurs often besides the satisfaction and interest in the increase of income, also wanted to help the wellbeing of their community.

Others (Kilkenny, Nalbate and Besser 1999) through empirical tests indicate the importance of the community's support for more than 800 small businesses. Using regression, they found that the interaction between the owner and community assistance also resonates in the community support of business and it has been the most important determinant of the business success among many managers, business and community indicators and characteristics.

However, the majority of researchers agree with M. Grannoveter position and stress that the excessively strong confidence in interpersonal relationships can impede the development of institutionalized trust in which A wants B to trust, not because he personally knows B but because B is a representative body, which A seeks as a reliable source. For communities, which relies very heavily on the personal trust, it is difficult to change relationships to the institutional trust. One of the consequences is that it starts a problem for significant operations outside of their direct environment, which are limited in amount and in number. (Crouch, Finegold and Sako 1999)

G. Grabher (1993) specifically talks about the weakness of strong ties and warns about the danger of the closeness and passing networks, based on his provocative analysis of the coal, steel and steel complex of the Ruhr region during the recession of the 1970-ies and 80-ies (Germany). G. Grabher notes that Ruhr businesses remained too dependent on each other and exhibited the lack of information and perspectives from

the outside, so that the area developed in a close relationship and the private-public relationship “became an obstacle to innovation” and “blocked” the development of the areas for different technologies and industries with adverse long-term perspective. It is reinforced, of course, by the region's over-specialization.

That corresponds with the M. Granovetter well-known “weak link effect”. G. Grabher believes that the Ruhr region had not strategies to promote the cooperation and to reduce the transaction costs, which until then had been the key to success. Adapting of the region in the past actually undermines its adaptability in the future. Adapting held the intrinsic values of the investment transactions and the shape of which proved to be too high, and actually took the form of continuous innovation, but it was the wrong technology and innovation in the wrong industries

Such social capital, which has been adapted for the specific production structure in the region, is very important for the growth as well as horizontal and vertical integration. However, the social capital also prevents the emergence of new business with competing networks. According to M. Schumpeter, the business can not be limited to a short period of innovation, followed by a long non-business adaptation period and increased efficiency. One of the major characteristics of the region's social capital is that it encourages business, its diversification and the ability of reorganization.

The basic condition for it is a fundamental balance between the different group (individuals and firms) interests, that is, no one's interests can be dominant. In addition, the optimal balance must be dynamic, based on the principle that elements of the social capital are restored, replacing the old non-productive networks with new ones and renewing the old networks. This means that the balance is necessary for the optimal strength and long-term links, as well as the weak, short-term links. It also includes an optimal balance between the internal and external links (from a social point of view of the group), which could be described as an optimal balance between the homogeneous and heterogeneous elements of the social capital. (Westlund 1999)

Several elements of the social capital, entrepreneurship and the area are studied next in this work. It is a beginning of complex and rapidly evolving field of research in which the economists have not been involved so far.

3. The social capital research in Latvia

Among the Latvian authors who have studied the social capital can find works of B. Rivža, V. Strīķis, E. Igaune, M. Pelše, S. Ancāns, M. Kruzmetra, V. Kleinberga, G. Klodāne, J. Leikučs, P. Rivža, I. Stokmane, V. Terauda, V. Meņšinkovs, J. Trops, E. Zandere, A. Zobena, Dz. Zilinska, L. Zīverte etc. Is used across a broad range of theoretical guidance. However, the theme of the social capital in Latvian scientific publications and the media is rarely mentioned.

Since 1996, Latvia prepares an annual report on the human development for the United Nations. The theme of the 2002/2003 was the Human Security, which also included the social capital assessment criteria. In the informative and analytical report “Latvia looking for the development of national strategies,” based on the findings of the research “The World and Latvia: Aspects of Sustainable Development” (Šumilo, Subbotina 2002), it was said that radical reforms or fast, but imbalanced public development often destroy the social forms of the capital, replacing them with the new forms. The civil society is a fourth resource in the development. The report also stresses the problems of the totalitarian system heritage in Latvia. The executive director of the Soros Foundation of Latvia V. Tērauda in the third Public Policy Forum at Small Guild, 17, July, 2002 quotes the U.S. political economy specialist F. Fukui: “The country, which has a low level of the social capital, is characterized not only by small, weak, inefficient firms, but such a state has also government corruption and ineffective government”. (Steel 2002)

The group of authors from the Agricultural University of Latvia (B. Rivža, V. Strīķis, M. Kruzmetra, etc.) in 1999 conducted a study on the Latvian rural development. One of the parts of the study was entitled “The Man in the countryside as a key development resource.” As a human quality indicators in rural areas there were named:

- health and education;
- gender and age;
- economic activity;
- political activity;
- participation in civil society activities.

The last two quality indicators are the most related to the social capital and its forms. Besides the known types of the capital – the physical capital, the financial capital and the human capital – the social capital is also important.

The European value study group regularly conducted research on the changing values. The massive inquiries across Europe in were held in 1999. The Baltic countries, including Latvia, were included in both final polls. The Latvian survey sample included 903 people in 1990, but 1013 respondents in 1999. (Schaik 2002) Although a questionnaire was designed to identify the core values on a wide variety of areas, there were also included questions related to the social capital theory. The survey data show that the level of confidence in Europe differs, but the Latvian confidence level is low.

The Council of Science of Latvia has funded several projects devoted to the social capital research in Latvia (University of Latvia – A. Zobena, University of Daugavpils – V. Meņšikovs).

It should be noted that in the new circumstances in the Latvian economy the most important factors are the human intellect and creativity. Based on the foregoing analysis, we conclude that, therefore, the social capital and trust in the society acquire

a great importance. Several projects on the social capital research in Zemgale, Riga agglomeration was led by professor V. Strikis (2004) and others.

M. Pelše has conducted a study on the social capital development opportunities in Zemgale. She concludes that the trust in public institutions of the Latvia by population is relatively low, although, in recent years the economic situation in general and the financial status of the population have improved slightly. An example of the fact that people do not trust those who are in government and who are leaders in the country, was the eighth Parliamentary elections, where more than half of the members of the previous Parliament lost their seats. It took the form of citizens' protests against the previous government and the dissatisfaction with its work. In 2007 M. Pelše defended her dissertation and was granted the degree of Dr. oec. for her work on the social capital development opportunities in Zemgale.

The informal networks in Latvia are the least researched part of the social capital. Available evidence suggests that people are more apt to be organized on the basis of common interests, rather than – solving their problems. It also points at the fact that if the life of individuals is not directly affected, the possibility that they will try to resolve the problem, is low. The research of the informal network shows the people's willingness to turn to family and friends in case of difficulties and that they use their free time to spend it with the loved ones. This somewhat confirms the opinion which tends to be linked to the social capital – no matter what you know but whom you know – this is a difference between the human capital (education and skills) and the social capital (social networks and contacts). The allegation of a low mutual and institutional trust was confirmed. The mutual trust since 1999 is higher, but the institutional trust is extremely low, especially regarding the trust in the political institutions.

Many institutions have low reputation in the Latvia that also is a characteristic feature of the transitional societies. In addition, the high degree of confidence can be unhealthy – it shows the uncritical attitude of the population and makes it possible to manipulate them. However, to form the social capital, the institutions must work on behalf of the citizens, and citizens must trust them. The trust in authorities (police and judicial system) allows the individual to realize that there are certain laws and rules by which the company operates. Such shared norms promote cooperation, when the individual is aware that the other party will receive a penalty if it doesn't follow the rules. In contrary, the trust in political institutions reflects the fact that the country develops in a direction supported by the majority of the population. In this view, people are encouraged to look for associates to reach the common goals that would benefit not only themselves but society as a whole. If the distrust in institutions starts to dominate, the informal networks can be formed to replace the institutions. For example, in the survey for “Blato” system in Russia, most people recognize that “everyone is doing it” (that is, using “Blato”), but they do argue that they would not do it themselves. This is an expression of a negative assessment of the social capital, as it makes people suspicious and therefore do not

contribute to confidence-range expansion. This the score of the social capital, of course, is the one that impede the social capital development in Latvia, as, for example, the ability of citizens to engage in the positive social network affects the level of trust in the society. Here we must admit that the trust of citizens in their ability to influence decisions is very low. The available data suggest that between 1995 and 2005 almost half of the citizens constantly expressed their opinion that that they wouldn't have any impact on the governmental and municipal decisions.

These two trends create alienation, non-involvement and the risk of indifference. It looks that the increase in prosperity and greater political stability would benefit the accumulation of the social capital in Latvian. The Latvian Civic engagement in a given period is not entirely evaluated. The non-governmental organizations and their membership figures show a sharp rise of people's desire to create and participate in various social networks. There has been a continuous increase in the number of non-governmental organizations.

In recent years the number of major state institutions has changed, as well as their roles and responsibilities. The change in government structure, such as regional councils have a much wider range of tasks than in the past century in the eighties.

The transition to the private ownership in rural areas created wider changes in the social capital development than in the urban areas. A large number of farms have been closed down, and often because of the lack of the social capital. For example, the assessment of business development with the start-up capital was the same, but they have developed in different ways. The real situation is that one has to build a profitable farm according to the EU standards, with annual heavy investments in the development of the company. There are two ways of development – to dwell on farm profits and credit resources or to use the grant money, but the latter farms ceased to operate. The economic conditions were the same, but entrepreneurs, the social capital has been different, had different levels of knowledge and desire to obtain it, different social networks and trust in the organizations and institutions and service providers (credit, agricultural advisory centers, RSS and others). In well-developed companies that trust is usually higher.

The Faculty of Social Sciences of the Agriculture University of Latvia hosted the international scientific conference on the social capital in June, 2002. There was Polish, Lithuanian and Latvian speakers. But only a few speakers accorded the conference theme. Most of them superficially reflected the social capital. Only three out of 31 speeches included the concrete definition of the social capital. (The social capital 2002)

The most important factor in the development of each society is the way people interact, collaborate and resolve conflicts between them. This aspect of the company, which researchers called the social capital, cannot be assessed by the conventional statistical indicators. (Šumilo 2002) The Information analysis report “Latvia looking for development of national strategies”, based on the findings of the above mentioned work, concludes that “radical reforms or fast, but the unbalanced development of the company

often destroys the existing social capital forms, replacing them with the new ones”. (ASF VAI AF 2001) The civil society is still under its development. The report also stresses the problems of the heritage of the totalitarian system in Latvia. (Igaune 2010)

From an economic point of view, “the social capital includes institutions, relationships and attitudes that influence people-to-people interaction and promote social and economic development” (Co-operative enterprises in Europe 2006); from the corporate point of view the social capital could be termed as “features of the social organization, such as trust, norms, cooperation, by facilitating coordinated actions, that can improve public safety”. The cooperatives as personal or business associations, as well as fair and democratic, economic organization are important tools for the creation of the necessary raw materials of “the social capital”. (Co-operative enterprises in Europe 2006)

A number of foreign authors (Bjørnskov 2000, Raise, 2001 Schaik, 2002) in their works mentioned the social capital in Latvia. In these studies there are used different methods of measurement of the social capital, and they presented data on many countries, including Latvia. Works of the social capital theory have important insights about the existence and formation of the public networks of Latvia. “The network of informal groups successfully are made up by many Latvian citizens, but for historical reasons, formal networks, capability of preventing, mitigating risks, or deal with them, in Latvia are underutilized resource”. (Latvia. Report on Human development 2003) The study also shows that the population is tended toward the direct informal social networks, as they believe that they are more effective than the official ones.

The official network is for the legal system, police and domestic security systems, social services, healthcare, employment services, government, local government. The informal network is for friends, family, friends with the same behavior, neighbors, informal community.

It is necessary to admit that “the social capital of people engaged in the social network can polarize the public as well as differentiate the income. People with higher education, higher income and skills can easily achieve their goals because they know how to take advantage of the benefits of the networking. People who can define their goals, pool resources to achieve these goals and most of all could afford networking and believe in this process are making progress.” (Latvia. Human Development Report 2003)

Gross national income per capita and the social capital index in Figure 1.

“Studies have shown that particular countries and even regions manage to use its resources more effectively and to develop them more successfully, the members of the public cooperate and resolve the inevitable conflicts of interest. All the public relations aspect of the body also is known as the social capital society.” (ASF VAI AF 2001) Although this formulation is not precise, however, it is possible to understand how it involves the social capital. The concept of scientific sources is addressed in various ways. The bottom line is that the Latvian social capital indicators have improved

though they are low, even compared with other neighbors, Lithuania and Estonia (see first figure). (Igaune 2010)

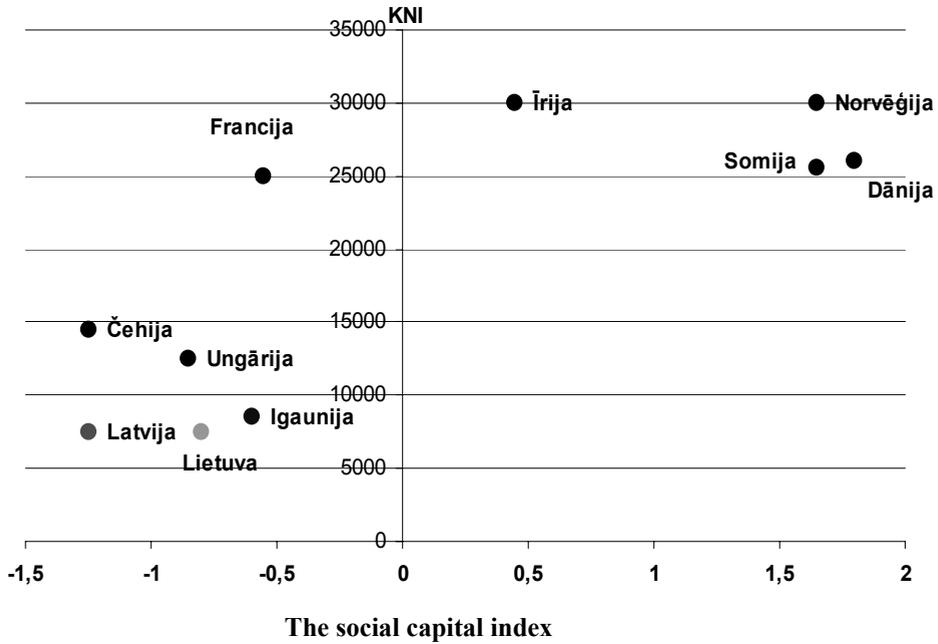


Fig. 1. The social capital and Gross National Income (USD)
Comparison between the European countries¹

In the doctoral thesis, “The social capital utilization possibilities in Riga region” E. Igaune (Igaune 2010) has analyzed the current use of the social capital studies, investigated the use of the social capital in Riga suburb of firms and municipalities, the regional spatial composition (three models), assessed the prospects for the development of the social capital in Riga region in the context of use, quantitative assessment of regional the social capital and its components. She has analyzed and compared the use of the social capital in the region and in the Riga suburb of Riga agglomeration of the inner zone of plants, estimated the social capital index of the Pierīga region county and its correlation with the established development indices.

With the hierarchical method of analysis with the assistance of nine experts, she evaluated the prospective model in the county, in connection with the use of the social capital perspectives. Riga region experts assessed the regional model, where the county was divided into urban and rural areas. Besides that, she developed the social capital index indicators of the social capital and created the sub-indices, calculated

¹ Source: Authors Figure drawn after Bjornskova, Svendsen (Bjornskova, Svendsen 2004)

and evaluated the social capital index for the Pierīga region's 12 counties. (Igaune 2007, Igaune 2009, Igaune 2010) E. Igaune in 2010 defended her thesis and got the Doctoral (Dr.oec.) degree. "The social capital index areas were estimated for the first time by E. Igaune in her doctoral thesis." (Kraštinš 2010)

Conclusions

- 1) The social capital is one of the factors of the economic development, the organizational, company performance.
- 2) Not only an individual person but all society has the social capital. However, the social capital in itself does not ensure equal access to social and economic resources, but it depends on the network quality.
- 3) Such the social capital, which has been adapted for the specific production structure in the region, it is very important for the growth and the horizontal and vertical integration.
- 4) For the social capital researchers – the Latvian authors V. Strike, V. Meņšinkovs, A. Strods and others the Council of Science of Latvia has funded several projects. On the social capital a number of thesis and two dissertations have been defended. (Pelše 2007, Igaune 2010)

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TAX CULTURE OF THE MODERN STATE

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Abstract

The main task of the study is to emphasize the idea, that the direction of tax reform should take into account the cultural framework conditions, which influence both: tax policy and administration of tax collection. Culture determines the behavior of taxpayers, especially their internal motivation, and relationships with tax authorities, as representatives of the State. Belarusian tax system is practically depoliticized. This is why we need some special institutions which can help to indicate real needs of business and private person concerning the taxes. Tax reforms require “tax culture reforms”.

Keywords: *taxes, culture, tax reforms.*

Introduction

From the institutional point of view, culture is one of the most important self-regulatory mechanisms in the society. Awareness of the cultural framework conditions can, on one hand, assist in the analysis of current tax policy, on the other hand, it can provide additional information about the available directions of the policy improving and can give recommendations for the development of available tax mechanism. This study, which was based on the institutional methodology, aims at examining the relationship and interaction of two phenomena – the culture and the tax system.

Tax reforms, which are been undertaken in order to promote economic growth in most modern states, require taking into account the particularities of the national culture and historical traditions.

The main aim of the work is to promote discussion on the way of studying not only direct rules of taxation, but main principles.

This study is based on the institutional methodology and investigates the relationship and interaction of two phenomena – the culture and the tax system. It has been motivated by increasing attention of the business society to the problem of effective tax system and the last place (out of 183 economies) of Belarusian tax system in the rank of IFC and World Bank “Doing Business 2011”. The methodology of ranking indicates an internal attitude of taxpayers to their own tax system and in fact reflects understanding of its fairness and efficiency.

It is assumed the direction of tax reform should take into account the cultural framework conditions of the economy development, which affects both tax policy and administration of tax collection. Culture determines the behaviour of taxpayers, especially their internal motivation, and relationships with tax authorities, as representatives of the State.

European experience shows that in complex interrelationship between culture and taxation the political culture plays a central role. But in modern Belarus the relationships between political culture and taxation are rather complex. Belarusian tax system is practically depoliticized. It means that in our countries we need some special institutions which can help to study and indicate the real needs of the business and private person concerning the taxes.

Tax culture bases on tax history. It is difficult to compare tax history of Belarus with, for example, British one. So principles, which have been established in European tax practice, shouldn't be transferred to Belarus without any limitation.

It is important to clarify the motivations of people on the base of their social experience, religious and other traditions in a concrete economy. So, one of the aims of this study is to focus on culturally relevant factors of taxation in the context of modern Belarusian situation. This will enable implementation of reforms in tax system on the ground of a wide range of instruments and make the reform more effective.

In conclusion, the study introduces a number of recommendations for "tax culture reforms" rising from historical traditions and cultural environment in Belarus.

Economics and Culture: Definitions and Problems

The main feature of economic systems, which is represented by a set of methods designated for the achievement of the utility on the base of limited resources, as opposed to mechanical, is an active role of economic agents, who are able to determine priorities in development based on their understanding of the utility in specific historical conditions.

Long-term ethical, religious, philosophical, and contractual relationships determine the structure, the purpose and rules of behaviour in economic systems and form the concept of "culture". (Роузфилд 2004: 13)

By definition, Ernest Gellner culture is a special way of doing business (doing things), which characterizes this community. (Gellner 1988: 4) According to Douglas North, culture is the "rules of the game" in any society, and it provides informal constraints of human interaction, which in a world with limited computing power and information, reduce the costs of such interaction. In addition, these behavioural and social constraints are transmitted. (North 1990: 9)

In the broadest sense, culture includes all material and non material things, created by human's talents. Culture influences and shapes all aspects of human life. Culture is multifaceted and makes itself felt through behavioural practices.

Changes taking place in the consciousness of man's place and role in history may give rise to social transformation, with both evolutionary and revolutionary. Consequently, during the determination of the line of development, it is necessary to form a system of measures ensuring social equilibrium, i.e. conditions in the society in which agents become adapted to their economic environment and where they are deceived in their expectations, understood in its broadest sense. (Hahn 1973: 5)

Interpenetration of economy and culture was the basis of the economic differentiation and cosmological ideas in the field of culture. Forms of culture, "which refer to ways of earning one's living," are accepted as Material culture, respectively, the forms that "relate on understanding the world around us and the place of humanity in him" are accepted as cosmological culture. (Дипак Лал 2007: 12)

The biggest part of the researches acknowledges the complexities in the interaction of the cosmological and material components of culture.

Another problem that arises in connection to the culture as a subject of study is the fact that the state usually consists of several culturally diverse groups of populations. The cultural sphere shouldn't be equated with the territorial dimension of one or more states. Most likely, it is more or less defined areas where people who share the same values and attitudes coexist (i.e. who share a certain lifestyle and to maintain some form of coexistence).

Culture and taxation, the concept of tax culture

The problem of efficiency and equity, which is a cornerstone in the choice of tax policy, is also solved in the sphere of culture. According to S. Friedman efficiency problems can be solved only if there is a corresponding tax culture. Moreover, in case of low culture of taxpayers, efficiency arrangements may not yield results. And if the increase in technical efficiency is not based on an accurate understanding of the culture among taxpayers, it also may have no effect or even reduce the effectiveness of tax collection. (Friedman 2003: 3)

For the purposes of the study of the dialectics of culture and taxation, the culture can be defined, on the one hand, as the sum of all factors affecting the behavior of individuals in relation to each other within the group, and as the attitude outside groups – to society and state. Cultural factors include the system of values (e.g., trust, honesty and religion), traditions and beliefs (for example, the effectiveness of the government) and setting (e.g., work ethic, willingness to cooperate).

On the other hand, culture also reflects the organization of human coexistence, the rules and institutions that help to define the relationship between genders and social groups, as well as cultural and socio-cultural factors. Finally, state system can also be considered in the context of culture. For example, information and communication

system of the state, used in the administration of state economic activity, particularly the tax administration, can be considered as a cultural factor.

Socio-cultural factors should be considered during a creation of a tax system in case of understanding of their stability over the medium-term perspective, as well as in case of their unique and essential role in the functioning of society. It means that these factors should not be random and must have a noticeable influence on the processes in society.

The term “tax culture”, which was originally used by tax experts as a synonym for “the art of taxation” (Bantam), and was later used by J. Schumpeter, is abundant in literature. And the term culture and art of taxation usually coincide. However, this interpretation does not disclose the full nature of this definition. (Homburg 2005: 4)

The authors tend to view culture as a tax voluntary compliance with tax laws or awareness of a citizen's obligation to pay taxes. (Edling & Nguyen-Thanh 2006: 2) According to this view, the term tax culture is synonymous to the tax mentality and tax morality and fiscal discipline. So, R. Kamins defines morality as a motivation or desire of the individual to pay the tax or, in other words, the moral obligation to pay taxes or believe in making their own contribution to public welfare by paying taxes. (Cummings, Martinez-Vazquez, McKee, Torgler 2004: 1)

B. Nerre gives a more complete definition of tax culture. According to his mind, tax culture encompasses all of institutions related to the national tax system in their historical development. Institutions, in particular, are all relevant habitual ways of thinking, social relations, and administrative arrangements arising in the tax interaction. (Nerré 2001: 8)

Despite the existence of a various studies in sphere of tax culture, most authors consider them largely empirical, based on observations of reality, rather than a coherent theory. Thus research in the field of tax culture deemed to be promising.

It seems that the tax culture (like culture in whole) can be divided into two forms – material and cosmological. Cosmological component can be called “tax consciousness” of society, which is a socio-psychological reaction of economic agents, which mediate the formation and functioning of the tax mechanism. This reaction is based on the concept of subjects of tax relations on the mandatory participation in state expenditures, tax rates on equity and fiscal relations, transparency in government expenditures for members of the society and the degree of confidence in the state as a whole. (Лукьянова 2008: 11) Material component is reflected in the system of tax administration and collection of taxes, legislative organs, the system of taxes and fees.

The role of cultural factors in the tax reform of modern state

Most of authors, who analyze the cultural factors, give the greatest importance to the relations between the state, particularly its administration, and citizens.

The focus on the relationship between state and citizens is understandable, since these relations reflect the basic conflict, the essence of which is the need to seize a citizen of the revenue, which requires a special foundation.

According to Moore (Moore 2004: 7), the transformation of “domain state” in the “tax state” had ultimately created the conditions for the emergence of modern European states. Once, after having been financed themselves through taxes on the private sector, the government has ceased to consider the domains as a main source of income. Developing the idea, it can be said, that only development of tax culture in the sense of art of taxation, led to a “fiscal state” (i.e., the state is mainly financed by taxes).

Enormous impact, that taxes have had on society, also led to the formation of new taxpayers – the citizens, who influence public policy. Moore makes a reference to the changes in values and moral concepts, as well as the attitude of citizens to the creation of a powerful state apparatus as a new social force.

The authors consider the following cultural factors in attitude of citizens towards the state as affecting its ability to mobilize resources:

- **Understanding the tax fairness**

On the one hand, fairness may be considered in the sense, that taxation is justified, if it does not lead to inconvenience for the citizens, but it is a payment to the state in exchange for equivalent reciprocal benefits.

Fairness may also mean a fair distribution of tax burden (for example, when a tax increase is inevitable). In practice, this is reflected in the application of so-called principle of paying capacity in taxes. It stipulates that citizens have contributed to the funding of state programs commensurate with their ability to pay.

Finally, taxation can be considered fair if it reflects a system of values and moral concepts and ideas of citizens. For this reason, many countries offer special tax benefits for the disabled, families with children and the elderly, etc.

Fairness also includes respect for individual freedoms, in other words, the extent of possible government intervention into the private sphere of the individual (for example, a dispute over the confidentiality of bank deposits and saving tax secret). Different countries show cultural differences in understanding of these issues. This issue also demonstrates the conflict between the necessity of sufficient respect for private life and supplement of the tax authorities with information which that might be a condition for efficient operation of the state.

- **The effectiveness of the state**

The efficiency of the state is another influential cultural factor, related to taxation. If citizens perceive government as inefficient and wasteful, then the motivation to comply with tax legislation is likely to be suffered. Thus, it is important not only to

realize what social functions are provided for by funds, collected by the state, but also how effectively they are implemented.

On the basis of dynamic models V. Pommerehne and other researchers (Pommerehne & Weck-Hannemann 1996: 10) have analyzed the correlation between the provision of public services and the costs of tax collection. They found that tax compliance has deteriorated, when the level of spending on tax collection and the difference between expected and actual quality of public services increased.

- **The legitimacy of state action**

Justification of the necessity and level of taxation can be derived from the legitimacy problems that the state must decide. Obviously, if the state is financed through taxation sectors, which are approved by society, citizens will accept that tax more easily than if the state finances something, the necessity of what was not approved by citizens.

- **Reliability of the state**

This cultural factor indicates fairness, trust, legitimacy and, above all, lack of corruption.

S. Friedman argues that citizens, who are accustomed to live in a “regulated” world and have learned the appropriate rules of conduct, are more likely to adopt the rules of the tax. For example, the author believes that as far the big companies are characterized by the presence of internal rules and regulations that must be respected, they also have the potential to better meet their tax obligations than individual taxpayers. (Friedman 2003: 3)

Religious faith also can define people's behaviour in the taxation sphere. For example, it can bring the sense of duty, solidarity, and shame, which may have a positive impact on taxation.

It is believed that citizens may copy the behaviour of their fellow citizens or to behave like this is waited around. Relationships between citizens (the relationship between taxpayers) are treated as just another cultural factor that affects the taxation. For example, if a country's citizens believe that other taxpayers are evading taxes, then when the opportunity arises, they are morally justified.

Cultural factors influence the way of society answering the question of resolving the conflict between the objectives of growth and efficiency on one hand, and the necessity of redistribution of public goods and other decisions of other social objectives – on the other.

The choice of ground principles of taxation e.g., neutrality, equality and fairness, practicality, environmental acceptability, etc., as well as decisions concerning the number and kind of taxes are influenced by culture. Thus, direct taxes are more related to the principle of paying capacity, since the actual payment of the tax depends on the income of the taxpayer, or on possession of taxable property. Indirect taxes actually occur when a taxpayer spends received income or makes transactions with the property.

Thus, the ideas prevailing in the economic and socio-political culture of the society, determine the design of the tax system.

Culture largely determines the behaviour of taxpayers, especially their internal motivation, and relationships with tax authorities, as representatives of the State. This demonstrates the complex relationship between political culture and taxation, in which the first, of course, plays a central role: the predominant form of government creates the basic conditions and the direction of tax reform, the consequences of which, in turn, affect the way citizens relate to government. Culture determines the behaviour of taxpayers, especially their internal motivation, and relationships with tax authorities, as representatives of the State. Belarusian tax system is practically depoliticized. That is why we need some special institutes which can help to indicate real needs of business and private person concerning the taxes. Tax reforms require “tax culture reforms”.

Conclusions

The purpose of this study was to determine the starting points for construction of a model of reforming the tax system, based on an understanding of the cultural environment of its operation.

The analysis showed that there is a complex, mutual relationship between culture and taxation. The prevailing political culture of the country, which determines the perception of power, is a leading factor in this respect. The level of participation of the taxpayer in the process of decision-making; specifics of relationship between the state, represented by tax authorities, and taxpayers; the perception of the state (i.e. the ratio of citizens to the state, and observance of tax laws) are particularly important. Such cultural factors as social networks, religions, forms of relationship between citizens influence the design of the tax system, tax structure, especially, organizing of tax administration.

Starting the reform of the tax system it is necessary to use actively the factor of “culture”. To do this:

- 1) during the planning phase of the design of the tax system more attention should be paid to the peculiarities of culture;
- 2) significant factors, which really determine cultural environment, should be examined to ascertain their possible involvement into achieving of the goals of tax reform;
- 3) All relevant actors must, regardless of their official status, participate in intercultural dialogue within the framework of drafting the tax reform, because sometimes only through their participation the motives of the entities can be understood;
- 4) more attention should be paid to the point of view of the taxpayers;
- 5) the continuity should be guaranteed for effectively functioned intercultural dialogue;

- 6) foundation of a special institutional mechanism, which can provide the study of the influence of culture on taxation (including the establishment of appropriate institutions and others).

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THE PROBLEMS OF SUPPORT OF ACCOUNTING FOR SUSTAINABLE DEVELOPMENT

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Abstract

With regards to the increasing awareness of the concept of sustainable development, the integration of environmental and social impact of the economic activity is of particular importance. The article examines the theoretical and methodological problems of constructing an accounting system for sustainable development at the macro and micro levels. Study of various approaches allowed a classification and typology of environmental accounting. The need to reflect in the derivative balance sheets not only the value of financial but also environmental and intellectual capital has been proved. In preparing a derivative of the profit and loss account the possibility of determining the global financial results has been considered. This global result reflects information on the depletion of non-renewable resources, the cost of restoration of the polluted environment and the depreciation of intellectual capital.

Keywords: *accounting, sustainable development, system of indicators.*

Human society has limited resources. In this contest the concept of sustainable development attracts the most importance. The concept of “sustainable development” originated from mid-1980s from international organizations aimed at strict determination of growth and development types which lead to degradation of environmental heritage of humanity. (Capul and Garnier 2002) According to the definition given in

Brundtland Report¹, sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs². Under sustainable development it is necessary to seek repletion of society wants based on limitations related to techniques and social organization impact on environment. (Capul and Garnier 2002)

The aim of sustainable development consists of three aspects or needs of human activity: economic, social and environmental (ecological). (Frankel, 1998; van der Bergh 1996; Westing 1996)

Nowadays due to sustainable development concept awareness an accounting of ecological and social consequences of economic activity takes on enormous significance. Sustainable development transition enforces on ecological factor insertion into a system of major socio-economic indicators on macro- and micro levels. Traditional macro indicators (GDP, GNP, national income etc.) do not reflect ecological situation, their incensement can cover ecological degradation. At the present time there are different accounting treatments and indicators of sustainable development like Global Reporting Initiative (GRI, 2007), Genuine Saving (method developed by the World Bank) (Hamilton 2000), System for Integrated Environmental and Economic Accounting (UN 1993), Green Accounts (Denmark 1995), UN Global Compact, The Natural Step, Genuine Progress Indicator (Cobb et al. 1995) etc. Besides there are standard acts that require an ecological factor record: Environmental Reporting Decree (Netherlands 1999), Accounting Act Regnskapsloven (Norway, 1999), Decree № 2002–221 (law NRE, France, 2001–420), Eco Management and Audit Scheme (EMAS) (Règlement (CE) n° 761/2001) etc. (Leshinskaya et al. 2005: 73–74; Morozova 2006) Bobylev and Makeenko (2001) also developed a system of ecological economic indicators that allow tracking an ecological factor in socio economic indicators of Russia's development.

Some works were dedicated to the problems of accountable supporting of sustainable development. (Antheaume and Teller 2001; Christophe 2000; Labouze and Labouze 1991; Richard 2008) They are different in variety of approaches. In order to structure the proposed solutions an attempt of environment accounting types' classification was made (Richard 2009). To classify environment accounting Richard (2009) proposed to use following criterions: direction of relation with environment, spatial dimension of

¹ "Our Common Future" Report was published in 1987 by World Commission on Environment and Development chaired by Gro Harlem Brundtland, the prime-minister of Norway. The report proclaimed the necessity of coordination of present economic development with the development of future generations. In this contest organizations have to save and improve natural resources needed for satisfaction of needs of future generations. This desire known as a doctrine of sustainable development has to lead to all level integration of economic and industrial solution effects applied to the environment (OEC, 1996: 88).

² Makliarskiy, B.M. (1995). Sustainable Development and Ecological Needs. [Online] p. 51–57 Available from:

<http://www.ecsocman.edu.ru:8100/images/pubs/2006/03/06/0000271904/007Maklyarskij.pdf>
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environment, method of capital maintenance, spatial dimension of information, level of information specification, data valuation type, conception of result. The first three criteria are specific for environmental accounting, the rest are 'classic'.

There are two accountability valuation approaches which characterize relations with the environment – the view *outside-in*, and the view *inside-out*. (Schaltegger et al. 1996)

The ***outside-in* view** determines an environmental impact (external) on organization (internal). Here the enterprise is 'touched' by environment only according to regulations, determined by external body or regulatory bodies of the enterprise towards environmental protection. This point of view corresponds with traditional accounting: environmental impact is reported only when it decreases an economic activity gains or increases holders' income. Environmental accounting under sustainable development supporting will take place only when enterprise allocates environmental impacts on operating result in its accounting system. For example single payments reflection, environmental fines, operation results for emission quotes and waste utilization. According to this view the financial (private) capital is saved and is possible to talk about 'ecologically differentiated accounting in private enterprises'.

The ***inside-out* view** tries to determine an environmental effect of organization. The aim is not only to assess environmental damage reflected in private capital, but to reflect nonrefundable damages from economic activity of organization towards the environment to determine aggregated expenditures. Under this concept 'environmental' capital also has to be saved which widens classic determination of capital maintenance. (Hicks 1948) This type of accounting can be named as 'ecological and human accounting of environment'. (Richard 2009)

For the accounting supporting of sustainable development in spatial aspect two concepts of environmental measurement get opposed:

- **restrictive concept** proposes that environment is limited by natural framework in which an organization is developing. In this case environmental accounting is conducted with an aim of natural capital maintenance;
- **expansive concept** proposes that environment of organization may include not only the nature, but also people contributing to the economic activity of enterprise, particularly its workers. In this case the accounting is attached with social character. It has twofold aim – simultaneous maintenance of environmental and human capitals. (Richard 2009)

Complexity and innovative character of human capital accounting lead to shrinkage of social accounting of environment to ecological accounting. But if starting out from traditional aspects of sustainable development, economic, ecological and social, only the concept that involves all the aspects appears to us legitimate.

The **capital maintenance concept** in the framework of traditional accounting and even ecologically differentiated accounting is limited by maintenance of private capital in hands of owners. In the contest of ecological and human accounting of

environment the situation becomes more complicated since it is necessary to provide capital maintenance of three types: financial, natural and human.

H. Daly (1991) marks out two models of natural capital maintenance which can be widened till human capital: 'weak' model allowing a possibility of substitution of natural capital with the financial one; 'strong' model is denying the possibility of such substitution.

There can be differentiated two more or less developed types of 'strong' accounting of environment: record that determining minimal storage of natural capital and oriented on standardized balance sheet development, environmental accounting which is restricted to limits of consumption determination (emissions) and aiming to data accessing about flows of utilization or data about results of environmental protection.

For the purpose of **spatial characterization of information** micro- and macroaccounting is separated. This approach does not justify itself in organization of accounting supporting of sustainable development by three reasons:

- first, the environment is a global term where micro and macro economic problems are linked and interconnected;
- second, while ecological responsibility is growing their macroeconomic measurement in the system of national accountancy is widening. At the same time there is a development of method of organization's life cycle analysis which obtains a macroeconomic orientation;
- third, numerous ideas developed by macro economists about environment can be used on micro level.

According to the level of **data specification** in environmental accounting the two types can be separated: financial and management accounting of environment on 'weak' and 'strong' levels as well as on micro and macro economic levels. (Richard, 2009) Besides it is possible to isolate fiscal accounting. (Schaltegger et al. 1996)

For the type of **data evaluation** there are three ways of environmental accounting:

- models of environmental accounting which are restricted to numerical data identification (for example an indicator of gas emission quantity). This approach does not let to generalize data (if you do not use complicated and unsubstantiated system of data weighting) and is impossible to determine global result or capital;
- types of environmental accounting which use different types of valuation bases for transformation of numerical criteria into cost ones. Determination of accountable object value is based on different approaches: commercial prices, replacement cost of natural functions being at risk of destruction, object estimate according to 'hedonic' prices appropriated by consumers to some natural functions, actuarial cost corresponded to utility (use value)³ of natural functions.

Moreover, Richard (2011) distinguishes two extremely different types of monetary valuation accounting. The first one is offered by World Bank (World Bank, 2006;

³ This actuarial method is represented in SEEA method.

Hamilton, 2000) under the name of “Genuine Saving”: it is the macro-economic environmental accounting model as ambitious as we know it includes not only an income statement (net national product) but also a balance sheet, which is very rare in the works of macroeconomists. The second type is the model of CARE (*Comptabilité Adaptée au Renouvellement de l’Environnement*) and concerns a micro-economic accounting that Richard (2011) proposes to replace the current financial accounting. This CARE model is based on the theory of replacement cost accounting developed by the German manager Schmidt (1921) and takes account of the methodology for calculating a sustainable income given by Hueting (1991).

Each accounting is subjective and in the last line of income and expense statement it shows a financial result interesting for investors. In traditional accounting a central place is occupied by capital’s owner. The result is determined as difference between receipts and expenditures which are spend on other interested parties. In environmental accounting of ‘strong’ types of ‘internal-external’ viewing where financial capital has to let its monopoly to natural and human ones, it would be logically to widen a term of financial result in order to reflect a contribution of all types of capital. Then an idea of environmental value added formation would become actual (value added after deduction of degradation of natural and human capital). Such approach is already accepted in some environmental accounting novations. (Huizing and Dekker 1992)

In this connection there is a rising necessity of reflection in derivative balance and profit and loss reports used in complex analysis of organization activity to separate apart items and divisions which characterize value of ecological and intellectual (human) capital. For example in analysis of extractive industry organization’s activity an item of ‘Mining operation’ is added to assets in the balance sheet and simultaneously an item of ‘Natural capital’ will be reflected in balance’s liability with the sum of substitution for exhaustible resources. As far as extraction is going on the depreciation on used resources gets reflected. Also estimated expenditures on devolution will be reflected in income and expense statement in expense part. Cost of intellectual (human) capital can be determined according to staff training expenses and reflected in assets part as ‘Training’ and on liability part there will be added an item of ‘Human capital’ on appropriate sum. During organization activity into customary charges on sales it is necessary to include depreciation of intellectual capital. Besides customary financial result determined by comparison of income and expense from sales it is recommended to calculate global result value under consideration of depletion of natural resources, cost of depollution of environment and depreciation of intellectual capital. Respectively methods of organization activity efficiency have to be supplemented with indicators which characterize aggregate capital usage and its separated parts (financial, ecological and human). Accounting of all economic, ecological and social consequences of business activity will let to minimize negative impact on environment and prevent global crisis.

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WORK SALARY IN THE PUBLIC SECTOR 2008–2010

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Abstract

Financial crisis in Latvia started in 2008 along with problems in Parex Banka, the second biggest bank of Latvia. However, already in the autumn of 2008, the government of Latvia made decisions regarding work salary in the public sector. During more than last two years, the Latvian government has cut remuneration, wages and work salary in the public sector several times. Changes had dramatic effect on work salary in the public sector. Employers also used the working time provisions in the legislation to introduce unpaid leave. Because of the necessary state budget consolidation measures, the government reduced a lot of social guaranties.

Keywords: *work salary, public sector, forms of work organization, collective agreement, and labour agreement.*

According to the data of the Central Statistical Bureau, in September 2010, there were 252 563 employed persons in the public sector, while in September 2008 – 298 630 persons. According to another data source, in September 2008, 39% of the persons employed in the public sector were employed in local governments, 32% in commercial companies and 29% in the central government. (First Informative Report 2009:12) Approximately one-third of the employed in local-governments are teachers. (Second Informative Report 2009: 10)

Table 1

Number of the Employed in the Public Sector in Latvia in September 2008

Area of activity	Number of employees
Central government institutions	91 600
Local-government institutions	122 900
Commercial companies	100 700
Total	315 200

Source: Informative Report on Changes to Wages, Salaries and Employment in the State as well as Optimization Measures in the Public Sector. Ministry of Finance. February 2009.

An employment contract for a specified period and part-time employment are typical forms of work organisation in public administration. Most public sector employees have a special status – civil servants, members of the armed forces, police officers etc. Civil servants are hired on a legal governmental basis without labour agreement. Therefore the Labour Law does not apply to civil servants. Central government has different forms of employment status. The collective agreements also do not apply to civil servants as their work salary and different conditions are set forth by regulations. Collective agreements have limited impact on employment relations in the central government because of different reasons (Industrial Relations in the Public Sector – Latvia 2008):

- civil servants (and armed services) are not employed on the basis of work contract and, therefore, are not subject to the Labour Law regulating collective bargaining (practically are not eligible for collective bargaining not only for this reason, but also based on the moral and loyalty considerations);
- others have the right to participate in collective bargaining, but there is not large space for negotiations, since all the main issues concerning employment in the central government institutions are prescribed by laws and regulations;
- in organizations (ministries) where bargaining exists, the topics of negotiation are some aspects of working time, work organization, job security and employment protection.

The rules of work salary of those who work in the local-government institutions and state enterprises can be result of collective bargaining but, at the same time, collective bargaining is limited in self-government as the government has set the maximum level of work salary and also of other payments. The bonuses were mostly paid in April and November, while the leave compensation was paid in June. It should be mentioned that a lot of reorganization happened when public administration sector transformed into a state agency or state-owned companies. There are also several institutions, which are not subject to the main rules – the Bank of Latvia and the Financial and Capital Market Commission.

The work salary of employees of public administration and self-government institutions is set forth by the “Law on Remuneration of Officials and Employees of State and Local-government Authorities” in accordance with a group of monthly salary and degree of qualification of the official (employee). The group of monthly salary by position is set based on position family and level in accordance with Regulations of the Cabinet of Ministers No. 1651 “Regulations Regarding Work Remuneration, Qualification Levels of Officials and Employees of the State and Self-government Authorities, and Procedures for Determination Thereof” issued on 22 December 2009. The family position and level is set to classify the position according to a single job classification system in compliance with the State and Local-government Office Directory. There are a total of 16 groups of work salary.

The degree of qualification of the official (employee) is set by applying the criteria of individual assessment: discharge of position (service, work) duties which is set in

accordance with annual evaluation of official's (employee's) performance and its results and also applying the length of service in the public service. There are a total of 6 degrees of qualification.

In accordance with the “Law On Remuneration of Officials and Employees of State and Local-government Authorities”, the employees of state government and local-government can receive additional payments if “she/he replaces an absent official (employee) in addition to his/her direct duties (work, service), performs the duties of a vacant position (service, work) or performs other duties in addition to the duties specified in the position description” – payment cannot exceed 20 per cent of the monthly salary determined for him/her, evaluating the degree of work complexity, amount and level of responsibility. Additional payments can be paid for overtime work (in accordance with the working time registration data). Benefits can be paid in accordance with the “Law on Remuneration of Officials and Employees of State and Local-government Authorities”. For example, in the Ministry of Finance, the following benefits can be paid:

- discharge benefit or retirement allowance;
- allowance in case of death of a family member or dependant in the amount of one minimum monthly salary;
- child-birth allowance to official (employee), if she had the rights to receive the childbirth allowance in accordance with laws and regulations till the “Law on Remuneration of Officials and Employees of State and Local-government Authorities” comes into force. The benefit can be paid if the child is born within 306 days after the law comes into force and the amount of this benefit cannot exceed two salaries for each child, furthermore, the benefit cannot exceed LVL 1000 for each child.

The Ministry of Finance develops the work salary policy for employees who work in the public sector, which includes the development and updating of laws and regulations, information gathering about current situation, also assessment of laws and regulations, which have been developed by other institutions regarding the work salary and related issues. The Ministry of Finance also maintains and updates the remuneration accounting system of institutions, which is financed from the state budget.

At present, there are several laws and regulations governing the work salary and social guaranties of the public sector employees.

Government Action

The financial crisis started in October 2008 along with problems in Parex Banka, the second largest bank in Latvia. However, already in the autumn of 2008, the government of Latvia took decisions regarding the work salary in the public sector. On 23 September 2008, the government of Latvia made a decision to reduce the number of positions in

public administration by 10% in 2009, in comparison with January 1, 2008. The information about reduction of the number of positions in the direct public administration, ministries was submitted on February 28, 2009 about 223 institutions with 63,78 thousand positions. The ministries planned a total reduction of 8026 positions (12,6%), int. al., in the administration of central government, the ministries planned to remove 545 positions (14,1%) in 2008 – 2009. (Third Informative Report 2009: 3)

Taking into account that the financial crisis continued to increase, the government of Latvia was forced to request financial assistance from the International Monetary Fund (IMF) and other institutions in November 2008. The IMF agreed to grant a loan shortly before Christmas 2008 along with the support of the European Union, which was approved in January 2009. (Purfield & Rosenberg, 2010: 8) In the Letter of Intent of the Government of the Republic of Latvia, which was sent to the IMF on December 18, 2008, the government of Latvia decided: “to cut the average compensation (wages and bonuses) in the entire public sector by additional 15% in 2009 (relative to the originally adopted budget), with further reductions in 2010–2011”. (Letter of Intent 18.12.2008:10) However, on the basis of the Cabinet Minutes as of November 25, 2008 (Minutes No. 83, Paragraph 62), the available resources for remunerations, wages and salaries were limited, and already in December 2008, the central government budget expenditure for remunerations, wages and salaries was reduced. (Fourth Informative Report 2009: 6)

These reductions were made in accordance with the Law “On Remuneration of Officials and Employees of State and Local-government Authorities in 2009”, which was adopted on December 12, 2008 and came into force on January 1, 2009. (lapsed from 01.01.2010) The aforementioned law stipulates that state and local-government institutions should reduce: “the amount of financing intended for the disbursement of remuneration in 2009 by 15% from the total amount of financing specified or planned for the authority for the same purpose, submitting the relevant approval to the Ministry of Finance until 1 March 2009”. The purpose of this Law was to limit expenditures for remuneration of the officials (employees) of state and local-government authorities. In accordance with the law “On the State Budget for 2009”, there was a decrease of LVL 219,8 million or 24,6% for remuneration in the state budget for 2009 in comparison with the actual expenditures in 2008, int. al., for wages and salaries – LVL 152,0 million or 23,5%. The law “On Remuneration of Officials and Employees of State and Local-government Authorities in 2009” also prohibited to pay bonuses, gratuities and vacation pays, specified the amount limit for performance of the duties of an absent official, for childbirth allowance and for allowance in case of death of a family member or dependant and cancelled management contracts. However, those who earned less than LVL 360,00 (two minimum wages) did not suffer from these cuttings.

Large number of those who received less than LVL 360,00 (48,5% of all employees in local-governments) meant that the impact of wage and salary reduction in the first half of 2009 was less than planned. (Sixth Informative Report 2009: 14) Therefore the

wage bill of the public sector in the first half of 2009 fell almost by 5%, whereas the program had assumed a 35% contraction. (Republic of Latvia: First Review and Financing Assurances Review under the Stand-by Arrangement 2009: 14) Changes in remuneration, wages and salaries in 2009 compared to the same period of 2008 in the local-government were also affected by the following objective reasons:

- in accordance with the Decision of the Cabinet of Ministers, from 1 September 2008, the wages of teachers were increased by LVL 60,00 or 12% per one workload. The proportion of teachers from all employees in local-government budget institutions is 33% (Sixth Informative Report 2009: 14);
- wage of those employees who received minimum wage increased by 12% because from 1 January 2009, the minimum wage increased from LVL 160,00 to LVL 180,00.

Considering that the economic situation continued to worsen, the government announced amendments to the state budget in June 2009. (initially planned already in March 2009) In addition to all cuttings, the amendments stipulated decrease in expenditures in education sector by 50% and in health sector by one-third. (Republic of Latvia: First Review and Financing Assurances Review under the Stand-by Arrangement 2009: 46) Amendments to the education sector set structural reforms decreasing the number of teachers (the number of teachers per pupil is one of the lowest indicators in Europe) in accordance with recommendations of the World Bank. In addition, there was a recommendation for the local-government to decrease wages of teachers close to the minimum wage in the country. (Republic of Latvia: First Review and Financing Assurances Review under the Stand-by Arrangement 2009: 46) Amendments to the state budget included also cuttings regarding pre-school preparatory class for 5- and 6- year olds. In response, the trade unions organized mass protests on June 18, 2009. However, the amendments were accepted in general by the social partners – trade unions’ and employers’ organizations.

The amendments reflected to wages and amendments to the Law “On Remuneration of Officials and Employees of State and Local-government Authorities in 2009” came into force on June 29, 2009. The amendments allowed the state institutions to reduce wages by decreasing the working time that actually meant unpaid leaves. The point which provided that cuttings do not apply to those, whose work salary is less than two minimum wages, i.e., LVL 360,00 was removed. To provide for the remuneration cuttings stipulated in the Law “Amendments to the Law on the State Budget 2009”, the Cabinet of Ministers on 30 June 2009 accepted amendments to seven Cabinet Regulations which regulate wages of the following groups of employees of the state budget financed institutions: direct state administration officers and employees, employees of the Office for Prevention of Laundering of Proceeds Derived from Criminal Activity, medical practitioners, employees of the Prosecutor’s Office and court, employees of the Corruption Prevention and Combating Bureau, soldiers, officials with special service ranks working in institutions of the system of the

Ministry of the Interior and the Prisons Administration (policeman, border-guards, fireman, employee of the Prisons Administration). The amendments set forth the wage cuts by applying differentiated approach: the wages above LVL 300,00 were reduced by 20% and wages under LVL 300,00 by 15%. By applying such approach, the lowest wages experienced fewer cuttings. (Sixth Informative Report 2009: 3)

The above-mentioned amendments had dramatic effect on wages and work salary in the public sector. As the IMF pointed out in its report issued in March 2010, the central government laid off almost 6000 employees in the third quarter of 2009 and 18% wage cuttings were applied on average. The changes especially affected teachers who now earned less than half from the public sector average. (Republic of Latvia: Second Review and Financing Assurances Review under the Stand-by Arrangement 2010: 7) In the same way employers applied reduced working time as unpaid leave. For example, in 2009 in the State Revenue Service every Friday was unpaid leave.

The Law “On Remuneration of Officials and Employees of the State and Local-government Authorities in 2009” included a provision that the Cabinet of Ministers had to submit to the Parliament a draft law on single remuneration system for officials (employees) of state and local-government institutions by 1 June 2009. As a result, the establishment of a single remuneration scale was one of the structural reform standards owing to which Latvia reached the agreement with the IMF. The legislation concerning the remuneration system of those, who worked in the state and local-government institutions, was approved by the government on December 1, 2009 with amendments to regulations, which became effective on January 1, 2010. The changes to the legislation retained limitations concerning bonuses and benefits, int.al., leave benefit in 2010 and 2011, including two stage system – one system applied to ministries and other to subordinated institutions, decreasing the wages by 5% in comparison with the previous period. (Twelfth Informative Report 2010: 3)

- On January 1, 2010 the new “Law on Remuneration of Officials and Employees of State and Local-government Authorities” came into force. The purpose of the law was to put in order the wage and work salary system, consolidate different regulations which apply to wage and work salary and social guaranties in one law, reduce the number of existing wage and work salary systems and make wage and work salary system in the country more transparent and available. The law set forth a definite coefficient system which is adapted to current socially economic situation in Latvia. In 2010, this coefficient was multiplied with average gross work salary, which in the first half of 2010 was approved by the Central Statistical Bureau of Latvia – LVL 471,00. In accordance with aforementioned law, work salary cannot exceed the salary of the Prime Minister. The new law applies to local-governments, members of the government, members of the board and council of state-owned companies etc. The law sets forth the common principles of work salary, common rules for benefits, compensations etc. Further in the law, the childbirth allowance and the allowance in case of

death of a family member or dependant are not provided as well as tuition compensation and other benefits and compensations were cut.

The new law defines two approaches to setting work salary – the first refers to elected officials or state officials applying the system of coefficient with connection to average work salary in the country, the second approach refers to the Direct Public Administration Institutions and independent institutions, the employees of court, whose work salary is set by regulations of the Cabinet of Ministers. For evaluation of the heads of independent institutions, the position evaluation methodology of Fontes Ltd. was used to obtain a view on the correlated hierarchy of these positions. This method has been used for more than 12 years for establishing wages' (pay) system in Latvia and in other countries in public (state and local-government) and private sector organizations, therefore, it is possible to get comparable dates about position value. The methodology was used already in 2004 creating a single work salary system for employees in public administration institutions.

The officials (employees) of direct public administration, court and Office of the Prosecutor General, the Office for Prevention of Laundering of Proceeds Derived from Criminal Activity, the National Radio and Television Council, the Chancellery of the President of Latvia, the State Audit Office of Latvia, the Public Utilities Commission, the State Culture Capital Foundation and the Ombudsman are united in single regulations of the Cabinet of Ministers. Separately the regulations of the Cabinet of Ministers are issued for the following groups of positions: professional service soldiers, medical practitioners who provide health care services paid from the state budget in a medical treatment institution or medical practitioners who provide health care services financed from the local-government budget in the local-government educational institutions, board and council members of state or local-government owned companies; board members of ports and the harbour-masters.

The transitional provisions set forth that in order to economize the budgetary funds the state and local-government institutions can insure officials' and employees' health for their own financial resources.

The Prime Minister's work salary has the highest coefficient – 4,05 and his gross work salary in 2010 amounted to LVL 1980,00. Accordingly, other work salaries in public administration are lower than the Prime Minister's work salary. The new system substantially decreased work salary for many employees. For example, before new law came into force, the Ombudsman's gross work salary was LVL 2750,00, now the applicable coefficient is 3,09 and in 2010 the Ombudsman received gross work salary in the amount of LVL 1455,00.

In accordance with the new remuneration system, the wages were cut by 5% on average. For example, the Under-Secretary of State (group of monthly salary No. 14) with qualification level No. 4 received maximum gross work salary LVL 1466,00, but after changes – LVL 1393,00. At the same time, a senior desk officer (group of

monthly salary No. 9) with qualification level No. 4 received maximum gross work salary of LVL 643,00, but after changes it was LVL 611,00.

Expenditures for remuneration in the state budget decreased with stated purposes. However in October 2010, the state budget expenditures for remuneration increased by 5% in comparison with the same period of 2009 and decreased by 35% in comparison with 2008 average indicator. The increase in the financial flow in October 2010 was connected with organization of the Parliamentary elections in October 2010. The expenditures of the local- government for remuneration decreased by 4% in October 2010 in comparison with the same period of 2009 and 35% decrease in comparison with the average indicator of 2008. (Twenty-second Informative Report 2010: 15)

On June 15, 2010 the amendments to the “State Administration Structure Law” came into force stipulating that wages of officials of institutions should be published every month in the institutions’ home page on the Internet specifying the name and surname, position and the wage amount.

On January 1, 2010 the amendments to the law “On State and Local-government Capital Shares and Capital Companies” came into force setting that it is allowed to pay benefits and prize money as well as manage other material incentives, using not more than 20 percent of all wage fund in one calendar year. Until 1 March 2010, a special list was created including those capital companies which have crucial impact on the national economy and which meet special criteria of qualifications set by the Cabinet of Ministers. To set the criteria of qualifications, the following indicators were considered: financial indicators, the sources of finance, sector of national economy in which the institution operates as well as the capital company impact of economic activity on national economy.

Because of the necessary state budget consolidation measures, the government had to cut a lot of social guaranties – decrease the amount of severance pay from 3 work salaries to one work salary, reduce unemployment benefit, cancel leave benefit in public administration etc.

One of the groups of the public sector, which suffered the most, was educators. For example, before the crisis the average gross work salary for one work load was LVL 340,00 (pedagogical length of service less than 5 years and educators received different benefits for consultations, preparation for lessons, homework checking etc.). Unlike the average work salary cuttings in the public sector, the teachers’ work salary was cut by more than 20% – after reductions the educators’ gross work salary was LVL 245,00 for one work load (pedagogical length of service less than 5 years, came into force on 1 September 2010), also all benefits were cancelled. (Latvia. The Cabinet of Ministers, 2009) At the same time, from 1 September 2010 a benefit for additional pedagogical work (amount of work increase, except replacement of an absent pedagogue) can be paid to educator (the amount of benefit is set by the head of the corresponding educational institution within the framework of the work salary fund) up to 20% from monthly work salary rate or hourly rate, which was set instead of previous 50%.

In the framework of the existing funding, it is allowed to pay for class upbringing (a maximum of 6 lessons per week), paperwork checking (a maximum of 6 hours per week), preparation for lessons and individual work with pupils (both – a maximum of 2 lessons per week).

The social system continues to get worse every year. For example, on 1 January 2010, the amendments to the law “On Personal Income Tax” became effective, which set forth that from now the tax payer shall pay 26% personal income tax instead of previous 23%. However, on 1 January 2011, the amendments came into force and the government changed the personal income tax to 25%.

Similarly, it should be pointed out that, as a result of crisis, not only work salary was cut but also the number of employees which in public administration is one of the largest in Europe. In the beginning of 2010, there were 39 state agencies in public administration. In comparison with 1 January of 2009, the number of state agencies was reduced by half. The total number of institutions subordinate to ministries was decreased by one-third – from 148 institutions to 97 institutions. The number of employees in headquarters of ministries and in the state agencies was cut by 12 000 employees. (*www.nra.lv* 2010)

Impact

The data of the Central Statistical Bureau of Latvia reflect the impact of wage cut realized by the government; however the situation is very complicated because of traditionally irregular wage payment tendency during the year. Annual data show that work salary in the public sector decreased by 11,1% in 2009 in comparison with 2008. Though the work salary continued to decrease in 2010 and comparing the first six months of 2010 and 2008 the decrease is 15,3%. In ministries, central state institutions and institutions under their supervision work salary decreased more sharply during two years than work salary in local-governments and institutions under their supervision – in the first six months of 2010 the work salary in ministries and public administration institutions decreased by 23,6% in comparison with the same period of 2008. Work salary in local-governments in the beginning of 2009 even increased – it can be explained by the fact that in autumn 2008 wages of teachers increased; however the work salary in 2009 and 2010 in local-governments decreased more sharply than in public administration institutions.

Average Salary in the Public Sector in Latvia 2008 – 2010

	Average annual rates			Average rates in the first half of the year			
	2008 (LVL)	2009 (LVL)	%	2008 (LVL)	2009 (LVL)	2010 (LVL)	% 2008– 2010
Ministries, central state institutions and institutions under their supervision	642	527	-17,9%	631	558	482	-23,6%
Local governments and institutions under their supervision	470	419	-10,9%	435	451	368	-15,2%
Public sector	567	504	-11,1%	543	527	460	-15,3%

Source: Average Monthly Wages and Salaries of Employees by Month. Table DS01, www.csb.gov.lv

The methodology of the Ministry of Finance for average monthly work salary estimation differs from the methodology of the Central Statistical Bureau. The reports of the Ministry of Finance show that average work salary of 61 820 persons who worked in the state budget institutions in March and April 2010 was by 25% less than average indicators in 2008. (Sixteenth Informative Report 2010: 7) In 2008, 2009 and 2010, there was a tendency to decrease average work salary in the public sector, expenditures to wages and remuneration as well as the number of employees. However in September and October of 2010, the number of employees in the state budget institutions increased in comparison with the previous month in 2010. In October 2010, the number of employees was 73 667 or by 7% less than the average number of employees in 2008. (Twenty Second Informative Report 2010: 6) In fact, the increase in the number of employees in September and October was explained by the Parliamentary elections held in October 2010.

Remuneration of the public sector employees has dramatically decreased since 2008. It means that a substantial part of those who are responsible for the future of our country is threatened. The remuneration for those who prepare state documents, plans, future development strategies, teach our children and build our future should be adequate to allow not only to survive but to lead decent life and decent work. The author recommends revising the remuneration system in the public administration, local-governments and institutions under their supervision in the nearest future to attract qualified specialists and provide work in the public sector transparently, fairly and loyalty to our country and inhabitants of Latvia.

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THE IMPACT OF IAS ON MANAGEMENT OF SMALL BUSINESS AND CULTURE AND SUSTAINABLE DEVELOPMENT

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Abstract

Sustainable development and environmental accounting.

The term sustainability reflects the need for careful balance between economic growth and environmental preservation. Although many definitions exist, sustainability generally refers to meeting the needs of the present generation without compromising the needs of the future generations. In a classic definition, a development path is sustainable if and only if the stock of overall capital assets remains constant or rises over time. But in this regard, natural resources and other forms of capital are substitutes only at a limited scale and to a limited degree. Rather, after the environment has been degraded to some extent, natural resources and other forms of capital likely act as complements. Manufactured capital is generally unproductive without a minimum of available environmental services. While future technological fixes may be imagined, there is certainly no guarantee that they will emerge.

Implicit in these statements is the fact that future growth and overall quality of life are critically dependant on the quality of the environment. The natural resource base of a country and the quality of its air, water and land represent a common heritage for all generations. To destroy that endowment indiscriminately in the pursuit of short-term goals penalizes both present and, especially, future generations. It is therefore important that development policy makes incorporate some form of environmental accounting into their decisions. For example, the preservation or loss of valuable environmental resources should be factored into estimates of economic growth and human well-being. Alternatively, policy makers may set a goal of no net loss of environmental assets. In other words, if an environmental resource is damaged or depleted in one area, a resource of equal or greater value should be regenerated elsewhere.

David Pearce and Jeremy Warford provide a good example of environmental accounting. Overall capital assets are meant to include not only manufactured capital (machines, capital roads) but also human capital (knowledge, experience, skills) and environmental capital (forests, soil quality, and rangeland). By this definition, sustainable development requires that these overall capital assets not be decreasing

and that the correct measure of sustainable net national income (NNI) is the amount that can be consumed without diminishing the capital stock. Symbolically,

$$NNI = GNI - Dm - Dn,$$

where NNI is sustainable national income, Dm is depreciation of manufactured capital assets, and Dn is depreciation of environmental capital-the monetary value of environmental decay over course of a year.

An even better measure, though more difficult to calculate with present data collection methods would be,

$$NNI = GNI - Dm - Dn - R - A,$$

where Dm and Dn are as before, R is expenditure required to restore environmental capital (forests, fisheries etc.), and A is expenditure required to avert destruction of environmental capital (air pollution, water and soil quality, etc.).

In light of rising consumption levels worldwide combined with high rates of pollution growth, the realization sustainable development will be a major challenge. We must ask ourselves, what are realistic expectations of sustainable standards of living? From present information concerning rapid destruction of many of the world's resources, it is clear that meeting the needs of a worlds population that is projected to grow by well over 2 billion in the next 50 years will require radical and early changes in consumption and production patterns. The research that follows highlights the situation and study with India in the perspective generally.

Keywords: *Sustainable development, natural resources, strategy, environment, consumption, International Accounting Standards (IAS), globalization.*

Introduction

In 1972, the then Prime Minister of India, Mrs. Indira Gandhi emphasized, at the UN Conference on Human Environment at Stockholm, that the removal of poverty is an integral part of the goal of an environmental strategy for the world. The concepts of interrelatedness, of a shared planet, of global citizenship, and of 'spaceship earth' cannot be restricted to environmental issues alone. They apply equally to the shared and inter-linked responsibilities of environmental protection and human development.

History has led to vast inequalities, leaving almost three-fourths of the world's people living in less-developed countries and one-fifth below the poverty line. The long-term impact of past industrialization, exploitation and environmental damage cannot be wished away. It is only right that development in this new century be even more conscious of its long-term impact. The problems are complex and the choices difficult. Our common future can only be achieved with a better understanding of our common concerns and shared responsibilities.

Following are some perspectives and approaches towards achieving a sustainable future with the IAS having a bearing on small businesses and with an Indian economy in mind.

Poverty eradication and sustainable livelihoods

In view of IAS 19, which provides for a standard on Employee Benefits and IAS 26, which provides for a standard on Accounting and Reporting by Retirement Benefit Plans, the following research has been made.

Poverty and a degraded environment are closely inter-related, especially where people depend for their livelihoods primarily on the natural resource base of their immediate environment. Restoring natural systems and improving natural resource management practices at the grassroots level are central to a strategy to eliminate poverty.

The survival needs of the poor force them to continue to degrade an already degraded environment. Removal of poverty is therefore a prerequisite for the protection of the environment.

Poverty magnifies the problem of hunger and malnutrition. The problem is further compounded by the inequitable access of the poor to the food that is available. It is, therefore necessary to strengthen the public distribution system to overcome this inequity. Diversion of common and marginal lands to the 'economically useful purposes' deprives the poor of a resource base, which has traditionally met many of their sustenance needs.

Market forces also lead to the elimination of crops that have traditionally been integral to the diet of the poor, thereby threatening food security and nutritional status. While conventional economic development leads to the elimination of several traditional occupations, the process of sustainable development, guided by the need to protect and conserve the environment, leads to the creation of new jobs and of opportunities for the reorientation of traditional skills to new occupations. To all Indian rural urban women, while continuing to perform their traditional domestic roles' are increasingly involved in earning livelihoods. In many poor households they are often the principal or the sole breadwinners. A major thrust at the policy level is necessary to ensure equity and justice for them.

Literacy and a basic education are essential for enabling the poor to access the benefits offered by development initiatives and market opportunities. Basic education is therefore a precondition for sustainable development.

A sizeable proportion (about 60 per cent according to some estimates) of the population is not integrated into the market economy. Ensuring the security of their livelihoods is an imperative for sustainable development.

Protecting and managing the natural resource base of economic and social development under changing unsustainable patterns of consumption and production.

Keeping IAS 9, Accounting for Research and Development Activities, which has now been superseded by IAS 38, effective from 1999, and IAS 41 on agriculture, it has been concluded that with increasing purchasing power, wasteful consumption linked to market driven consumerism is stressing the resource base of developing countries further. It is important to counter this through education and public awareness.

In several areas, desirable limits and standards for consumption need to be established and applied through appropriate mechanisms including education, incentives and legislation.

Several traditional practices that are sustainable and environment friendly continue to be a regular part of the lives of people in developing countries. These need to be encouraged rather than replaced by more 'modern' but unsustainable practices and technologies. Development decisions regarding technology and infrastructure are a major determinant of consumption patterns. It is therefore important to evaluate and make development decisions, which structurally lead to a more sustainable society.

Technologies exist through which substantial reduction in consumption of resources is possible. Efforts to identify, evaluate, introduce and use these technologies must be made.

Subsidies often lead to wasteful and unsustainable consumption by distorting the value of a resource. All pricing mechanisms must be evaluated from a sustainable development point of view. The integration of agriculture with land and water management, and with ecosystem conservation is essential for both environmental sustainability and agricultural production.

An environmental perspective must guide the evaluation of all development projects, recognizing the role of natural resources in local livelihoods. A comprehensive understanding of the perceptions and opinions of local people about their stakes in the resource base must inform this recognition. To ensure the sustainability of the natural resource base, the recognition of all stakeholders in it and their roles in its protection and management is essential.

There is need to establish well-defined and enforceable rights (including customary rights) and security of tenure, and to ensure equal access to land, water and other natural and biological resources. It should be ensured that this applies, in particular, to indigenous communities, women and other disadvantaged groups living in poverty.

Water governance arrangements should protect ecosystems and preserve or restore the ecological integrity of all natural water bodies and their catchments. This will maintain the wide range of ecological services that healthy ecosystems provide and the livelihoods that depend upon them.

Biomass is, and will continue for a long time to be, a major source of fuel and energy, especially for the rural poor. Recognizing this fact, appropriate mechanisms must be evolved to make such consumption of biomass sustainable, through both resource management and the promotion of efficient and minimally polluting technologies, and

technologies, which will progressively reduce the pressures on biomass, which cause environmental degradation.

The traditional approaches to natural resource management such as sacred groves and ponds, water harvesting and management systems, etc., should be revived by creating institutional mechanisms which recapture the ecological wisdom and the spirit of community management inherent in those systems.

Sustainable development in a globalizing world

Globalization as it is taking place today is increasing the divide between the rich and the poor. It has to be steered so that it serves not only commercial interests but also the social needs of development.

Global business thrives on, and therefore encourages and imposes, high levels of homogeneity in consumer preferences. On the other hand, for development to be locally appropriate and sustainable, it must be guided by local considerations, which lie in cultural diversity and traditions. Therefore recognition at the policy level, of the significance of diversity, and the need to preserve it, is an important precondition for sustainable development.

In an increasingly globalizing economy, developing countries, for want of the appropriate skills, are often at a disadvantage in negotiating and operating multilateral trade agreements. Regional cooperation for capacity building is therefore necessary to ensure their effective participation in all stages of multilateral trade.

Globalization is driven by a vast, globally spread, human resource engine involving millions of livelihoods. Their security is sometimes threatened by local events causing global distortions (e.g. the impact of the WTC attack on jobs in India or, in a wider context, sanctions against countries not conforming to 'international' prescriptions in human rights or environment related matters). Mechanisms to safeguard trade and livelihoods, especially in developing countries, must be evolved and negotiated to make globalization an effective vehicle of sustainable development.

War and armed conflict are a major threat to sustainable development. It is imperative to evolve effective mechanisms for mediation in such situations and to resolve contentious issues without compromising the larger developmental goals of the conflicting parties.

Health and sustainable development

With IAS 19 once again in mind, human health in its broadest sense of physical, mental and spiritual well-being is to a great extent dependent on the access of the citizen to a healthy environment. For a healthy, productive and fulfilling life every individual should have the physical and economic access to a balanced diet, safe

drinking water, clean air, sanitation, environmental hygiene, primary health care and education. Access to safe drinking water and a healthy environment should be a fundamental right of every citizen.

Citizens of developing countries continue to be vulnerable to a double burden of diseases. Traditional diseases such as malaria and cholera, caused by unsafe drinking water and lack of environmental hygiene, have not yet been controlled. In addition, people are now falling prey to modern diseases such as cancer and AIDS, and stress-related disorders.

Many of the widespread ailments among the poor in developing countries are occupation-related, and are contracted in the course of work done to fulfill the consumption demands of the affluent, both within the country and outside.

The strong relationship between health and the state of the environment in developing countries is becoming increasingly evident. This calls for greater emphasis on preventive and social medicine, and on research in both occupational health and epidemiology. Because of the close link, there needs to be greater integration between the ministries of Health and Environment, and effective coordination and cooperation between them.

Basic health and educational facilities in developing countries need to be strengthened. The role of public health services must give preventive health care equal emphasis as curative health care. People should be empowered through education and awareness to participate in managing preventive health care related to environmental sanitation and hygiene.

Most developing countries are repositories of a rich tradition of natural resource-based health care. This is under threat, on the one hand from modern mainstream medicine, and on the other from the degradation of the natural resource base. Traditional medicine in combination with modern medicine must be promoted while ensuring conservation of the resource base and effective protection of IPRs of traditional knowledge.

Developing countries should also strive to strengthen the capacity of their health care systems to deliver basic health services and to reduce environment-related health risks by sharing of health awareness and medical expertise globally.

Means of implementation

Finance

IAS 20 is a standard on Accounting for Government Grants and Disclosure of Government Assistance. With this standard in mind the following can be perceived. Overseas Development Assistance (ODA) is declining. The commitments made by industrialized countries at the Earth Summit in Rio a decade ago remain largely unmet. This is a cause for concern, which has been voiced by several developing countries. Industrialized countries must honor their ODA commitments.

The new instruments and mechanisms, e.g., the Clean Development Mechanism, that are trying to replace ODA need to be examined closely for their implications for the developing countries.

In view of the declining trend in ODA, developing countries must explore how they can finance their sustainable development efforts, such as by introducing a system of ecological taxation.

Private investment cannot replace development aid, as it will not reach sectors relevant for the poor. Such investments and other mechanisms can at best be additional to, not replacements for, development assistance.

Conditions attached to financial assistance need to be rigorously scrutinized, and the assistance accepted only if the conditions are acceptable. Financial support for sustainable development programmes must not be negatively influenced by political considerations external to the objectives of the assistance.

Trade, technology and science and technology

Referring to the IAS 2 on Inventories, IAS 11 on construction contracts, IAS 16 on Property, Plant and Equipment, IAS 31 on Interests in Joint Ventures, IAS 38 on Intangible Assets and IFRS 3 on Business Combinations it has been seen that trade regimes, specifically WTO, are sometimes in conflict with sustainable development priorities. Imperatives of trade, and the concerns related to environment, equity and social justice however need to be dealt with independently.

Environmental and social clauses that are implicitly or explicitly part of international agreements must not be used selectively to erect trade barriers against developing countries.

Developing countries will suffer a major trade disadvantage if the efforts to put in place globally acceptable Process and Production Methods (PPMs) are successful. Instead, existing disparities between the trade regimes and multilateral environmental agreements, such as those between Trade Related Intellectual Property Rights (TRIPS) regime and the Convention on Biological Diversity (CBD), should be thoroughly addressed. Mechanisms to resolve such conflicts between multilateral agreements should be set up.

Developing countries need not follow the conventional path to development with regard to technologies but must use to their advantage the cutting- edge technology options now available to ‘leapfrog’, and put the tools of modern technology to use.

Mechanisms must be put in place to make available to developing countries the latest technologies at reasonable cost.

Technology transfer must be informed by an understanding of its implications in the social, economic and environmental contexts of the receiving societies.

Technologies must be usable by and beneficial to local people. Where possible, existing local technologies must be upgraded and adapted to make them more efficient and useful. Such local adaptations should also lead to the up-gradation of local technical skills.

Local innovations and capacity building for developing and managing locally relevant and appropriate technologies must be encouraged and supported.

Integrating highly sophisticated modern technology with traditional practices sometimes produces the most culturally suited and acceptable solutions, which also makes them more viable. This trend should be encouraged.

The paramount importance of education in effecting social change is recognized. Mainstream education must now be re-aligned to promote awareness, attitudes, concerns and skills that will lead to sustainable development.

Basic education, which promotes functional literacy, livelihood skills, and understanding of the immediate environment and values of responsible citizenship, is a precondition for sustainable development. Such education must be available to every child as a fundamental right, without discrimination on the basis of economic class, geographical location or cultural identity.

Adequate resources and support for education for sustainable development are essential. An understanding must be promoted among key decision makers of the potential of education to promote sustainability, reduce poverty, train people for sustainable livelihoods and catalyze necessary public support for sustainable development initiatives.

Greater capacity needs to be built in science and technology through improved collaboration among research institutions, the private sector, NGOs and government. Collaborations and partnerships between scientists, government and all stakeholders, on scientific research and development and its widespread application need to be improved.

Population

With India's population crossing a billion in the year 2000, the National Population Policy announced in that year has special significance. Its change in focus from merely setting target population figures to achieving population control through greater attention to socio-economic issues such as child health and survival, illiteracy, empowerment of women, and increased participation by men in planned parenthood, gives it greater breadth and depth, thereby holding forth better promise of achieving its long-term objective of a stable population by mid-century.

The official realization, that population is not merely about numbers but about the health and quality of life of people in general and women in particular, must be reinforced and sustained by an informed debate to bring key population issues into

ever sharpening perspective at various levels of policy making from the national and state legislatures to local government institutions.

There is need for a better and more widespread understanding that the number of children desired by any couple depends on a large and complexly interrelated number of socio-economic and cultural factors, and that any policy action seeking to control population must seriously take all these variables into account.

An important part of empowering women in matters pertaining to population is to explicitly recognize and respect their rights over their bodies and their reproductive behaviour. This recognition must permeate society in general, and religious, judicial and law-enforcement institutions in particular, through continual campaigning and dialogue.

The pursuit of population control must not be allowed to compromise human rights and basic democratic principles. Such compromises are often implicit in the disincentives aimed at controlling family size; in comments on the fertility of particular social groupings; and in the occasional demands to control in-migration to metropolitan areas. It is essential to place these matters in a balanced and rational perspective through informed public discourse supported by the wide dissemination of authentic data.

Strengthening governance for sustainable development at the local, national and international levels

Effective management of resources requires participation by all stakeholders. At the local level, strengthening democratic institutions generally leads to better and more sustained management of natural resources.

To enhance effectiveness of people's participation in local governance, committees comprising both elected and executive members of local bodies and representatives of community groups, must be formed. Appropriate capacity building would enable them to undertake local development activities according to community priorities, monitor project implementation and manage community assets. Where the conditions for such community empowerment have already been created, as in India through the 73rd and 74th amendments of its Constitution, effective implementation of the provisions should be ensured.

All members of society are the stakeholders of sustainable development. Women make up half of this group. Affirmative action to ensure representation and power to women in local governance, and appropriate capacity building, are necessary to make them effective and equal partners in the development process.

Social groups, which have been traditionally discriminated against, must be represented in local governance and empowered to ensure that they become effective and mainstream partners in development.

Children are the valuable assets of every society. It is the responsibility not only of the parents, but also of the community that children realize their potential fully, growing

up in a healthy, enriching and fulfilling environment. Ensuring the provision of such an environment is a major challenge of governance at the local level.

The occupational, cultural and economic heterogeneity of population is on the whole a major asset in making development sustainable; but there are times of crisis when the same heterogeneity can become the basis of conflict and social insecurity. It is imperative to evolve participatory mechanisms of governance involving citizen groups and local authorities, which will provide effective means of conflict resolution.

Sustainable development is achieved through optimizing gains from several variables, rather than maximizing those from a single one. This requires government departments, by convention organized in sectors, to work together, or in some cases as a single multi-disciplinary authority. For this joint planning, transparency and coordination in implementation are required.

The richness of skills available in society must be harnessed through partnerships involving institutions in civil society, such as NGOs, CBOs, corporate (including private) bodies, academic and research institutions, trade unions, etc., which must be made an integral part of planning and implementation for sustainable development.

There is, on one hand, a surfeit of laws, many of them outmoded and irrelevant. On the other hand, effective enforcement is lacking in respect of laws relevant to contemporary concerns and conducive to governance. This calls for a thorough review of laws, elimination of those, which are outmoded, and simplification of the procedures for implementing those, which are relevant.

Internal reviews as well as lessons from international experience should be the basis of identifying and filling gaps in existing laws. It must, however, be recognized that laws in themselves do not provide solutions, unless there are mechanisms to effectively enforce them.

There are many traditional systems and practices whose value and validity needs to be recognized and brought into the mainstream of governmental development thinking and policy. Appropriate mechanisms for integrating them need to be created.

Many policies were framed either before sustainable development became a major concern or in a sectoral perspective. These need to be reviewed from the point of view of sustainable development. All future policies must be guided by considerations of sustainable development.

Areas lacking policies should be identified and adequate policies compatible with the imperatives of sustainable development framed, taking into account successful examples, of policies and initiatives in similar areas.

There is both a need and a scope for regional and global cooperation in sustainable development. Some of the areas of common concern are marine and riparian issues, trans-boundary environmental impacts, and management of bio-resources, technology sharing and sharing of sustainable development experiences.

Efforts must be made, especially by developing countries, to work towards synergizing experiences and rising shared regional concerns as a strong united front in international forums. Mechanisms must be put in place to facilitate such international exchange of domestic and global experiences in sustainable development.

There must be mechanisms for monitoring the compliance of countries to their obligations under various environmental agreements. Currently there is a multiplicity of institutions with fragmented responsibilities. A better governance regime is required to ensure cooperation and compliance.

Conclusions

- 1) Globalization and its contentious shift of ruling, conventional paradigm promotes the concept of sustainable development. It has been considered to a very large extent in policy creation by many governments the world over and hence has been a major turning point over the past three decades. Current policymaking should concentrate more on long term consequences and future results rather than short term goals. It should bring about consistency between the future and present requirements of sustainable development.
- 2) Sustainable development should recognize the relationship between environmental, social and economic dimensions and their interdependence. It however doesn't provide a clear path of direction and technique to obtain the results. Sustainable development is a very much long term procedure, which requires great sacrifices and changes by society and honest political governance. It leaves the people to decide for themselves to interpret and keep in mind local and national interests in accessible resources and the rigorous improvement and production of the same through sociably and environmentally acceptable means.
- 3) There is a very large variety and choice of methods to develop and maintain sustainable development methods and strategies at all national and international levels, but however, it should be kept in mind that they should each meet the priorities of society and be based on globally accepted principles which will benefit individuals and society at large.

EVALUATION OF THE ECONOMIC ASPECTS OF THE PROPERTY TAX INCREASE

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Abstract

In order to stimulate development of the Latvian economy with tax policy in the light of the present economic situation as well as to balance out state budget revenue and expenditure it is necessary to introduce tax changes by dividing the tax burden and focusing on taxes which are easier to collect, hard to evade and have a wider taxable base. One of the solutions could be employee tax cuts compensated by the property tax rise. This paper analyzes differences between the structure and rates of the property tax across EU countries, evaluates economic aspects of the property tax increase – impact on the business environment and economic growth. It also evaluates the need for a revision of cadastral valuation system in Latvia.

Keywords: *property tax, tax burden, tax rates, cadastral valuation.*

Description of the Tax System in Latvia

At the moment tax system in Latvia is not sufficiently directed towards ensuring a sustainable socio-economic development of the country. Tax system in Latvia could be described as unstable since it changes quite often. The system is directed towards employment taxes, i.e., taxes paid by employees or their employers from salary rather than towards consumption or capital. It is demonstrated by the distribution of the state budget tax revenue across tax groups in 2010. As you can see in Figure 1, 54,2% are accounted for by employment taxes, 31,30% – consumption taxes, 8,4% – resources taxes, and only 6,1% by capital taxes. (Ministry of Finance 2010)

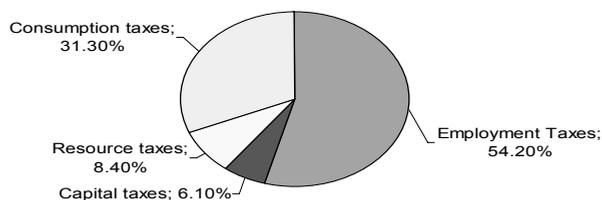


Figure 1. Distribution of the consolidated general state budget tax revenue across tax groups in 2010 (Ministry of Finance 2010)

Large share of the Latvian economy is accounted for by grey economy. In 2009 it accounted for 39% of GDP making it the highest showing in the EU. The second largest share of grey economy was recorded in Estonia – 38,2% of GDP. It is followed by Bulgaria, Romania, and Lithuania – 36,2%, 35,4%, and 30,2%, respectively. The lowest share the grey economy was recorded in Austria and UK – 9,3% and 10,3% of GDP, respectively. The average percentage of grey economy in the EU is 16,6% of GDP. (Skapars 2010:99) Grey economy is encouraged by various gaps in laws and regulations, low level of income, low economic culture of the population. Thus well-weighted and professionally drafted tax system is one of the key factors in reducing grey economy since the level of grey economy has a negative impact on tax and budget revenue, GDP, and free competition among businesses.

J. Maynard Keynes, one of the most remarkable representatives of the theory of economic regulation, said that governments should encourage or curb demand for particular groups of commodities by tax policy in order to avoid sharp reorientation of consumers from one group of commodities to another. For instance, throughout the ‘years of abundance’ in Latvia property tax deals were not liable to income tax and housing tax was not imposed either. Consequently there was a business industry where no taxes were imposed on profit and the property (housing) was not liable to property tax either. As a result thousands of businessmen and consumers invested in the real estate thus leading to oversaturation of the market and real estate ‘bubble’ burst.

In order to stimulate development of the Latvian economy with tax policy in the light of the present economic situation as well as to balance out state budget revenue and expenditure it is necessary to introduce tax changes by dividing the tax burden and focusing on taxes which are easier to collect, hard to evade and have a wider taxable base.

In the recent years much emphasis has been placed on the possibility of the property tax increase in Latvia. Starting from 2010 the government of Latvia expanded the range of objects liable to property tax – property tax 0,1–0,3% of cadastral value was

imposed on homes for the first time. Starting from 2011 property tax rate was doubled to 0,2–0,6%. The government is also planning to impose the property tax on auxiliary buildings as of 2012. Latvian state government intends to continue approving amendments to the property tax thus ensuring a greater involvement of municipalities in establishing tax rates, more precise correspondence of the tax burden to the value of the property, and additional revenue. The grounds for expanding the range of objects liable to the property tax and increasing the rates is the fact that the property tax is lower in Latvia than it is in the developed countries and administration of this tax is more simple and easy to implement than that of other taxes. Latvian government wants to give priority to the types of taxes that reduce the possibility of tax evasion thus reducing the share of grey economy.

Description of the Tax Burden in the EU Countries

The impact of the tax system on society in general is shown by the tax burden calculated as a percentage of the tax revenue in relation to GDP. Usually this index should range from 30% to 37%. (Skapars 2010: 91)

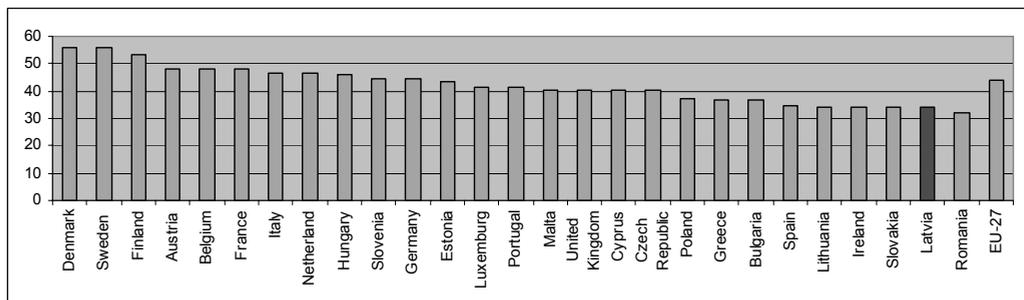


Figure 2. Tax burden in the EU in 2009, % of GDP
(Government finance statistics, 2010)

Figure 2 shows the differences between the tax burdens across EU member states. The largest tax burden is recorded in Denmark and Sweden – 55,8% and 55,7%, respectively while the smallest – in Slovakia (34%), Latvia (34%) and Romania (32,1%). The level of tax burden makes EU a high tax zone. In 2009 the average level of EU-27 tax burden was 44%. (Government finance statistics, 2010) However, the tax burden differs across EU member states. In 2009 the percentage of tax revenue in relation to GDP in nine EU member states was below 40% (Greece, Spain, Poland, Bulgaria, Lithuania, Ireland, Slovakia, Romania, Latvia). Whereas the margin between the highest and lowest level of tax burden among the EU countries is 23,7% (55,8% in Denmark and 32,1% in Romania).

In 2009 the level of the tax burden in Latvia was the second lowest in the EU – 34%. One might assume that the population of Latvia must be very satisfied with living in a country where they are not crushed by a high tax burden. Actually there is no need for statistics to feel the attitude of society towards excessively severe taxes. On the one hand, land property tax burden might be attractive to foreign investors promoting business development in the country. While on the other hand, the low index might also indicate the small amount of taxes paid, the great share of grey economy in the country.

In the past two years several significant changes have been introduced in the tax system in Latvia by increasing personal income tax, value-added tax, introducing a tax on capital gains, dividends and interest income and various other changes. However, we will not be able to discuss their results and impact on the tax revenue and burden before 2012. So far since its accession to EU Latvia has always been one of the five lower member states in terms of the level of the tax burden depending on its GDP in the respective year.

Table 1 shows the share of the total tax revenue accounted for by the property tax in 2009 in Sweden, Denmark, Belgium, Finland, France, Latvia and the EU on average.

Table 1

**Share of the property tax of the total tax revenue in 2009, %
(Eurostat, 2010)**

Country	Share of the property tax, %
Sweden	3,1
Denmark	3,8
Belgium	3,9
Finland	2,6
France	7,6
average EU-27	5,3
Latvia	2,0

On average in EU the property tax revenue accounts for 5,3% of the total tax revenue. The highest gains are recorded in France – 7,6%, in the rest of the analyzed countries they range from 2,6% in Finland to 3,9% in Belgium. Whereas comparison of the level in Latvia to the average EU level shows that the share of the property tax in Latvia is 2,65 times lower than the average in the EU. In 2009 revenue from the property tax in Latvia accounted for 2% of the total tax revenue.

Evaluation of the Property Tax Rates in the EU Member States

There is no uniform tax system across the EU states. Each state must develop its own model considering factors such as the size and division of the population, cultural, economic, and social structure, administrative system, the number and conscientiousness of the tax payers. Tax systems of EU states are quite different and tax rates among some member states differ as well. According to the effective EU legislation, there are no restrictions for the member states in respect of the property tax, they are entitled to impose different tax rates on different tax payers.

Table 2

**Property tax rates in several EU states
(Latvijas Avīze 2009)**

Country	Property tax rates
Lithuania	0,3–1%. Tax is imposed only on buildings used for profit. Each municipality establishes and calculates them individually.
Estonia	0,1–2,5%, imposed only on land
Sweden	Tax rate for apartments is up to 0,4%, private family homes – up to 0,75% of the cadastral value of the property. The highest rate – 1% on properties used for economic activity.
United Kingdom	There are no strictly established uniform rates. Tax calculations are based on one British pound and market value of the living space. State fixes the rate for commercial units, municipality – for residential property
Poland	0,62 Polish zloty or 11,3 centimes per 1 sq.m. of land used for commercial activity; 0,30 zloty for other lands; 17,31 zloty per 1 sq.m. of building space used for business and 0,51 zloty per 1 sq.m. of living space.
Germany	0,35% multiplied by the municipality coefficient 2,8–6,0. The rate ranges from 0,98 to 2,1% of the property value. The average rate is about 1,5%.
Hungary	Tax is imposed on expensive real estate the value of which is 30–50 million forints (about 76,000–127,000 lats) – the rate is 0,35%. Property the value of which exceeds 50 million forints (over 127,000 lats) is liable to 0,5% rate.
The Czech Republic	One Czech koruna (about 26 centimes) per one 1 sq.m. of living space multiplied by coefficient 1,0–4,5 depending on the location of the property. Rate increase is up to the local governments.
Finland	Tax rate on living space varies between 0,5 and 1%. If the property is the only permanent place of residence of the person, then the tax rate ranges from 0,22 to 0,5%. The average rate is 0,79% and for permanent place of residence property – 0,22%. Rate increase is up to the local governments.
Greece	Property tax rates range from 0,35 to 0,94% for private persons and from 0,1 to 0,6% for legal entities. The tax is not imposed on real estate valued under 243,600 euros (about 170,500 lats).

Examples illustrated in table 2 show that in most cases there is no uniform rate for all tax objects, rates are mainly differentiated by property use.

Evaluation of the Economic Aspects of the Property Tax Increase

As already mentioned before the advantage of the property tax compared to other taxes is that it is impossible to hide the tax object and evade taxes. It is particularly important in a society where grey economy and income tax evasion is widely spread. Latvia needs to create conditions in order to arouse interest in the external and local businessmen to expand their economic activity here. Such interest will arise if the country offers conditions for due return of the contribution. The state needs to develop a tax system providing an opportunity to produce a product with relatively low costs and high added value.

In his study 'Socio-economic Aspect of the Property Tax' Dr.hab.eoc. Peteris Gulans (*Pēteris Gulāns*) finds that since the property tax is included in the production costs, it is not advisable to increase it because the property tax is in fact a kind of corporate and personal income tax. Its contribution to the consolidated general state budget revenue is relatively small. Nevertheless, it may have a significant impact on the sustainable development process of the country because:

- in the production industry it increases production costs thus weakening competitiveness of the companies' products, lessens investor interest in the Latvian production companies thus hindering growth of the state economy;
- in the social sector it reduces the ability and interest of the population in providing themselves with apartments adequate for the present time, hinders formation of the middle class and encourages emigration. (Gulans, 2010)

While economist Janis Oslejs (*Jānis Oslejs*) thinks that at the moment attention should be paid to a study 'Do Tax Structures Affect Aggregate Economic Growth' by Jens Matthias Arnold, OECD researcher, analyzing growth of the OECD states and comparing it with tax types – the focus areas of taxation. And he noted that depending on whether taxes were concentrated on property or consumption or private income, the speed of development was different and observed a correlation: the more taxes are relatively imposed on property and less on private income the faster was economic growth in the country. The difference is considerable – about 2% per year and in 10 or 20 years, for instance, the difference between the revenues of these countries might become large. Therefore J. M. Arnold stresses that the property tax is probably the least harmful for two reasons. If greater burden is placed on the property tax, it will be lightened on some other area. There is no need to increase taxes on, for example, consumption to collect the necessary money. It is important that imposition of the property tax hinders shaping of the real estate bubble – a very big issue in Latvia. (Oslejs 2010)

At the moment the government of Latvia should evaluate and thoroughly analyze which taxes should be raised in the future and which should be cut urgently. It requires complex thinking in order to reduce the share of grey economy and facilitate the

recovery process of the Latvian economy as well as opportunities for growth in the future. One of the factors hindering economic growth of Latvia – excessively high taxes imposed on employees since they reduce both consumption and investments. For the purpose of competition the businesses need to keep a low prime cost, however, employment taxes increase their production costs thus hindering job creation and company growth.

One of the solutions could be employment tax cuts compensated by the property tax raise. As a result of employment tax cuts consumption would increase since it would leave more income at people's disposal leading to lower prices and higher revenue for businesses and thus providing stimuli for business development and job creation. Employment tax cuts would also lead to a reduced share of grey economy.

When increasing the property tax burden the following factor should be considered: property tax is administered by municipalities which are entitled to grant property tax relief to businesses within its administrative area thus reducing tax burden and facilitating business development and foundation of new companies in its territory and to help socially vulnerable groups by granting relief.

The Need for the Revision of Cadastral Valuation System

The current cadastral valuation system using mainly market price of individual objects sold in the region causes a situation where cadastral value rises considerably in some regions (Jurmala) and falls in others. In the light of the current economic conditions in Latvia the practice of some highly developed countries to use market deal price for cadastral valuation cannot be applied. This method is suitable for countries with closed economy mostly in the big countries where there is a stable society and real estate buyers are mainly state residents.

Although traditionally recognized source of the property tax is land rent or income from the real estate use, in Latvia cadastral value is in no way associated with this income. Thus in the future value of the real estate should be determined by analyzing what income could be gained from the real estate lease. Such method of determining cadastral value would be fairer and it would stand for the actual value of the real estate instead of the present situation when value of the property depends on its location and the number of deals in the area thus causing artificial increase of the cadastral value in areas high on demand (Jurmala, Mezaparks).

In order to determine cadastral value based on the rent and lease market information a matter of developing a real estate lease data collection mechanism in Latvia should be handled. One of the options is a uniform registry containing information on leases by natural persons and legal entities. The State Revenue Service would gather information on revenue from the respective real estate lease by identifying the lease object. The State Land Service would gather information on lease and rental agreements ensuring

information exchange among the respective information systems to be used both by municipalities and the State Revenue Service for their function performance.

Moreover, procedure for the real estate revaluation and prediction of cadastral value changes as at the beginning of the taxation period should be revised. At the moment there is a problem: yearly changes in cadastral value base forces property tax payers to count on yearly changes in cadastral value and taxes which hinders them from planning expenditure in medium term and causes tension in the society. Furthermore, laws and regulations do not indicate the precise moment and it is not clear to the society when the cadastral value should correspond to the market situation allowing for interpretations on the correspondence in various periods – upon approval, at the beginning or end of the taxation period. In the conditions of falling market, according to laws and regulations, value base indexes should be determined when the value base becomes effective (evaluate price fall prediction for the year ahead). When making predictions for the year ahead it is not always possible to make accurate prognoses, they require adjustments in the following year thus leading to increasing dissatisfaction and incomprehension in the society especially in cases when cadastral value rises. A possible solution here might be a mass revaluation every two years providing that the characteristic data of the objects has not changed by determining a fixed cadastral value base reference date (specific condition on the real estate market) and stop making real estate market predictions at the beginning of the taxation period. At the same time the need for predictions should be envisaged in cases of sharp falls in the real estate market value. As a result of these changes the State Land Service will be able to prepare a quality elaborate report on changes in cadastral value base and property tax payers will gain certain stability in respect of planning tax payments.

Conclusions

- 1) Tax system in Latvia could be described as unstable since it experiences considerable changes quite frequently, it is directed towards employment taxes and a large share of the Latvian economy is accounted for by grey economy (in 2009 – 39% of GDP).
- 2) In the recent years the range of objects liable to property tax has been increased – from 2010 property tax has been imposed on homes, from 2011 tax rates have been increased. The government plans to continue raising property tax rates in Latvia.
- 3) In 2009 the level of tax burden in Latvia was the second lowest in the EU – 34% of GDP. In 2009 revenue from the property tax in Latvia accounted for 2% of the total tax revenue which is 2,65 times less than the average level in the EU (5,3%).
- 4) Tax systems in the EU countries are quite different and property tax rates are also different among several countries, they are mostly differentiated by property use.

- 5) In the light of conflicting opinions concerning property tax increase in Latvia it is necessary to evaluate and analyze which of the taxes should be raised in the future and which should be cut urgently.
- 6) It is necessary to introduce tax changes by dividing the tax burden and focusing on taxes which are easier to collect, hard to evade and have a wider taxable base. One of the solutions could be employment tax cuts compensated by the property tax raise.
- 7) By increasing the property tax burden municipalities are entitled to grant property tax relief within their administrative areas thus reducing the tax burden and encouraging business development and foundation of new companies within its territory as well as to help socially vulnerable groups.
- 8) Since traditionally recognized source of the property tax is land rent or income gained from the real property use, cadastral value in Latvia should be based on the market information on lease and rent by introducing a uniform registry containing information on leases by natural persons and legal entities.
- 9) Mass revaluation of the cadastral value should be ensured in Latvia every two years providing that data characterizing the object has not changed by determining a fixed cadastral value base reference date. As a result of these changes the State Land Service will be able to prepare a quality elaborate report on changes in cadastral value base and property tax payers will gain certain stability in respect of planning tax payments.

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INTELLECTUAL CAPITAL EVALUATION AND FINANCIAL MANAGEMENT SYSTEM: HISTORY OF HYPOTHESIS TESTING

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Abstract

Standard financial performance indicators, for example Return on Assets (ROA), Return on Equity (ROE), etc, have been used in the enterprise strategic planning process over the years. At the same time one of the widely discussed pitfalls in the management process is weak evaluation of the Intellectual capital (IC) system of the enterprise.

Since the beginning of the 20th century there were plenty of models and methodologies created to evaluate the Intellectual Capital (IC) and its components. *The purpose of this paper is* to choose the IC evaluation model that is based on the analysis of the monetary values of the companies, to make the study on the Latvian banks and compare the findings of the Impact of Intellectual capital efficiency on the financial indicators in the current period revealed in other internationally published articles and the results of the study on the banks in Latvia for the period 2004 to 2009.

Summarizing the results of the researches published up to 2010, the paper contributes to this ongoing discussion by providing additional experience of using the Intellectual capital measures obtained using VAIC model and its' impact on standard financial indicators in business practice. In particular it reveals the relationship of VAIC and its components to ROA, ROE, ROS, revenue growth, employee productivity, bank risk, barriers to entry and other ratios in Latvian banking sector and provides the history on hypothesis testing abroad.

Paper provides the summary on the historic findings of the previous studies, analysis of the findings and comparison with Latvian data up to 2010. There are no previous studies in Latvia on this matter.

Keywords: *Intellectual capital, Value Added Intellectual Coefficient (VAICTM), knowledge management, financial performance indicators.*

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Introduction

Since the beginning of the 20th century there were many of models and methodologies created to evaluate the Intellectual Capital and its components. Speaking about the models, that are not subjective and allow for the comparison of the financial entities, there are only several models that proved to provide the methodology to use for the wide range of the enterprises. The author have chosen one of them, i.e. Value Added Intellectual capital (VAIC) model. It was developed and popularized in the year 1997 by Thomas Stewart. VAICTM describes how a company's Intellectual capital adds value to the company. The author of the paper aim to make one of the first attempts to make the extensive summary on application of VAIC in different countries, providing the information on various aspects of the analysis and its interpretation and extracting the key findings summarizes the internationally published hypothesis and Latvian results in the current period.

Methodology of research

1. Model

Pulic (1998) proposed the Value Added Intellectual Coefficient (VAIC) method to provide information about the value creation efficiency of tangible and intangible assets within a firm. Rather than valuing the IC of a firm, the VAIC method primarily measures the efficiency of firms' three types of inputs: physical and financial capital, human capital, and structural capital, namely the Capital Employed Efficiency (CEE), the Human Capital Efficiency (HCE), and the Structural Capital Efficiency (SCE). Intellectual capital consists of human and structural capital (defined this way in the context of VAICTM). Capital employed consists of equity, the accumulation of profit-adjusting entries and liabilities with interest.

The introduction of this method provides new possibilities for companies and their stakeholders. For example, VAIC provides a concrete basis for comparing the IC of different companies. This also offers intriguing possibilities for researchers. But there are some questions regarding the validity of the measures. This is mainly due to the fact that the measures are based on financial statement information but the balance sheet captures only a small portion of IC. On the other hand, a company's profits are created as a result of all its existing resources – including IC. Thus, financial statement information in fact includes the effects of IC.

2. VAIC calculation

VAIC of a firm can be calculated using the following five steps (Muhammad N, Filzah Md Isa 2007).

Step 1

Calculation of value added (VA_{it}) by all the resources of the firm during the 't' period of time.

Where,

OUTPUT_{it} = Total income from all products and services sold during the period of t.

INPUT_i = All expenses (except labor, taxation, interest, dividends, depreciation) incurred by firm for the period of t.

Therefore,

$$VA_{it} = OUTPUT_{it} - INPUT_{it} \quad (1)$$

The Calculation of value added by a firm during a particular period is based on the theory of stakeholder view (Donaldson and Preston, 1995). The stakeholder theory suggests that everyone who affects and be affected by what a firm does has an interest (stake) in the firm. In this context "stakeholder" includes not only vendors, employees, customers, directors, government, but also members of community as a whole. Therefore, value added by a firm to stakeholders is a broad performance measurement of the firm than accounting profit, which calculates return attributable to shareholders of the firm. According to Riahi- Belkaoui (2003), value added by a firm during a particular period can be calculated by the following formula (2).

$$R = S - B - DP - W - I - D - T \quad (2)$$

Where: R is retained earnings for the period; S is net sales revenue; B is cost of goods sold plus all expenses (except labor, taxation, interest, dividends, depreciation); DP is depreciation expenses; W is employees' salaries and wages; I is interest expenses; D is dividend paid to shareholders; and T is taxes.

$$S - B = DP + W + I + D + T + R \quad (3)$$

The left hand side of the above formula shows that total value generated by the firm during a particular period and the right hand side indicates how the firm has distributed its generated value among stakeholders such as depreciation expenses – DP; employees salaries and wages – W; debt holder interest – I; shareholder dividend – D; government taxes – T; and retained earning – R. Therefore, formula (3) can be rearranged to calculate value added by the firm, by the following formula (4).

$$VA = DP + W + I + D + T + R \quad (4)$$

$VA_{it} = DP_{it}$ (depreciation expenses) + W_{it} (salaries and wages) + I_{it} (total interest expenses) + D_{it} (dividends) + T_{it} (corporate tax) + R_{it} (profits retain for the year).

Following Pulic (2000a, b) and Firer and Williams (2003), the subsequent steps show the calculation of Value Added Intellectual Coefficient (VAIC) and its components such as coefficient of capital employed, coefficient of human capital and coefficient of structural capital.

Step 2

The calculation of Value Added Capital employed Coefficient (VACA_{it})

$$VACA_{it} = VA_{it} / CA_{it} \quad (5)$$

Where,

$CA_{it} = \text{Capital Employed} = \text{Physical Assets} + \text{Financial Assets} = \text{Total Assets} - \text{Intangible Assets}$ at end of 't' period.

VACA_{it} = The value created by one unit of capital employed during the 't' period.

Step 3

Calculation of Value Added Human Capital Coefficient (VAHC_{it})

$$VAHC_{it} = VA_{it} / HC_{it} \quad (6)$$

Where,

$HC_{it} = \text{Investment in human capital during the 't' period or total salary and wages including all incentives.}$

VAHC_{it} = Value added by one unit of Human Capital invested during period of 't'.

Step 4

Calculation of the Value Added Structural Capital Coefficient (STVA_{it})

$$STVA_{it} = SC_{it} / VA_{it} \quad (7)$$

Where,

$SC_{it} = \text{Structural capital} (VA_{it} - HC_{it})$

STVA_{it} = The proportion of total VA accounted by structural capital.

Step 5

Calculation of Value Added Intellectual Coefficient(VAIC_{it})

$$VAIC_{it} = VAHC_{it} + VACA_{it} + STVA_{it} \quad (8)$$

Where,

VAIC_{it} = Indicate corporate value creation efficiency on firm resources

Value added (VA): newly created value, calculated as follows:

VA = Operating profit + Employee costs + Depreciation + Amortization, or

VA = OUTPUT (Total income) – INPUT (All costs of purchasing goods and services from the market)

Human Capital (HC):

Overall employee expenses (salaries, education, training). In this analysis, it is considered as investment and not cost, thus not a substantial part of INPUT any more.

Therefore:

Human Capital Efficiency:

$$(HCE=VA/HC) \quad (9)$$

Structural Capital (SC): Result of human capital's past performance (organization, licenses, patents, image, standards, and relationship with customers).

Therefore:

Structural Capital Efficiency:

$$(SCE=SC/VA) \quad (10)$$

Capital Employed (CE): All material and financial assets.

Capital Employed Efficiency: Indicator that shows how much VA is created on each monetary unit invested in CE.

$$(CEE=VA/CE) \quad (11)$$

Intellectual Capital Efficiency: Indicator which shows how efficiently IC has created value.

$$ICE=HCE+SCE) \quad (12)$$

Value Added Intellectual Coefficient

$$VAICTM=ICE+CEE \quad (13)$$

The basic proposition is that the higher the VAICTM and ICE are the better management has utilized the existing potential in the resources employed in creating value (Van der Zahn et al., 2004).

3. Data

This paper tries to use traditional financial statement data to extract the value/ measures for the analysis of intellectual capital.

Latvian banking sector consists of central bank (named as Bank of Latvia) and Commercial Banks. The data was collected from the annual reports published by the banks according to the law requirements. The annual report is the audited statement published for the external users and thus, will work as the justification for the confusion over the validity of the data. The scope of analysis are 24 Latvian banks for the five year period, i.e. 2004–2009.

The majority of the studies on VAIC and financial performance indicators use data of the financial enterprises and in particular bank for the analysis. Therefore the results of the analysis allows for the comparative results with international findings.

4. Summary on financial ratios used for the analysis

In the literature on VAIC and financial ratios author found 16 ratios mentioned in the analysis and offers 16 sub hypothesis on the impact tested for Value Added Intellectual coefficient (VAIC) and its components, namely Intellectual capital efficiency (ICE), human capital efficiency (HCE), structural capital efficiency (SCE) and capital employed efficiency (CEE):

4a. IC positively affects ROA contemporaneously, *ceteris paribus*.

Return on Assets (ROA) is an indicator of how profitable a company is relative to its total assets. ROA reflects firms' efficiency in utilizing total assets, holding constant firms' financing policy. The formula used by Chen et al (2005) is used to eliminate the tax effect for the calculation of ROA. $ROA = \text{Pre-tax income} / \text{Total Assets}$

Model 1a: $ROA_{it} = \beta_0 + \beta_1 VAIC_{it} + \epsilon_{it}$,

where,

ROA: return on total assets refers to total income, including net interest income and non interest income, over total assets;

VAIC: Intellectual capital value added (see calculation in part 1);

ϵ_{it} : residual

4b. IC positively affects ROS contemporaneously, *ceteris paribus*.

A ratio widely used to evaluate a company's operational efficiency. ROS is also known as a firm's "operating profit margin". It is calculated using this formula: $(ROS) = \text{net income (before interests and tax)} / \text{sales}$

Model 1b: $ROS_{it} = \beta_0 + \beta_1 VAIC_{it} + \epsilon_{it}$,

where,

ROS: return on sales;

VAIC: Intellectual capital value added (see calculation in part 1);

ϵ_{it} : residual

4c. IC positively affects ROE contemporaneously, *ceteris paribus*.

Return on equity (ROE) represents returns to shareholders of common stocks, and is generally considered an important financial indicator for investors.

$(ROE) = \text{pre-tax income} / \text{average stockholders' equity}$.

Model 1c: $ROA_{it} = \beta_0 + \beta_1 VAIC_{it} + \epsilon_{it}$,

where,

ROE: return on equity;

VAIC: Intellectual capital value added (see calculation in part 1);

ϵ_{it} : residual

4d. There is a negative relationship between EP and IC performance. (UK)

Employee productivity (EP) is a measure for the net value added per employee, reflecting employees' productivity:

$(EP) = \text{pre-tax income} / \text{number of employees}$;

Model 1d: $EP_{it} = \beta_0 + \beta_1 VAIC_{it} + \epsilon_{it}$,

where,

EP: employee productivity

VAIC: Intellectual capital value added (see calculation in part 1);

ϵ_{it} : residual

4e. IC positively affects ATO or the productivity level contemporaneously, *ceteris paribus*.

Asset Turnover (ATO): The productivity level is the turnover of assets of a company. It measures a firm's efficiency at using its assets in generating sales or revenue. This variable was also used by Firer & Williams (2003) and Shiu (2006) as a proxy measure of productivity (P).

$P = ATO = \text{Sales Revenue} / \text{Book Value of Total assets}$

Model 1e: $ATO_{it} = \beta_0 + \beta_1 VAIC_{it} + \epsilon_{it}$,

where,

ATO: asset turnover

VAIC: Intellectual capital value added (see calculation in part 1);

ϵ_{it} : residual

4f. IC positively affects OCF ratio contemporaneously, *ceteris paribus*.

Operating Cash Flow Ratio (OCF) is the net cash generated from operations. It is produced by taking net income, adding back the amount of depreciation, and making adjustments to reflect changes in the working capital accounts, i.e. receivables, payables, inventories and other current accounts, on the balance sheet. Operating cash flow is debatably a better measure of a business's profits than earnings because a company can show positive net income on the income statement and still not be able to pay its liabilities.

OCF = Total Operating Cash Flow/ Total Assets;

Model 1f: $OCF_{it} = \beta_0 + \beta_1 VAIC_{it} + \epsilon_{it}$,

where,

OCF: operating cash flow

VAIC: Intellectual capital value added (see calculation in part 1);

ϵ_{it} : residual

4g. IC positively affects the RG contemporaneously, *ceteris paribus*.

Growth in revenues (GR) measures the changes in firms' revenues in this case, from year to year. Increases in revenues usually signal firms' opportunities for growth. Growth in revenue is measured by dividing firm's revenue from the latest financial report by the previous year's revenue. This variable is used as a proxy measure of profitability. $GR = ((\text{Revenue } t / \text{Revenue } t-1) - 1) \times 100\%$;

Model 1g: $GR_{it} = \beta_0 + \beta_1 VAIC_{it} + \epsilon_{it}$,

where,

GR: growth revenue

VAIC: Intellectual capital value added (see calculation in part 1);

ϵ_{it} : residual

4i. IC negatively affects cost to assets (CTA) contemporaneously, *ceteris paribus*

Cost to Assets (CTA) refers to operating costs over total assets;

Model 1i: $CTA_{it} = \beta_0 + \beta_1 VAIC_{it} + \epsilon_{it}$,

where,

CTA: costs to assets

VAIC: Intellectual capital value added (see calculation in part 1);

ϵ_{it} : residual

4k. Companies with greater intellectual capital tend to have higher ratios of market-to-book value, ceteris paribus

Market- to-book value: ratio of total market capitalization (share price times number of outstanding common shares) to book value of net assets of the firm;

$$\text{Model 1k: } MBit = \beta_0 + \beta_1 VAIC_{it} + \epsilon_{it},$$

where,

MB: market-to-book value

VAIC: Intellectual capital value added (see calculation in part 1);

ϵ_{it} : residual

4l. Years: here we look for the tendency over the years

4m. There is a negative relationship between the levels of I in IT and IC performance

The logarithm of the computing cost for bank i's in year t (LOGITIN_{vit}), will be used to represent the level of bank i's investment in IT in year t.

$$\text{Model 1m: } \log IT_{it} = \beta_0 + \beta_1 VAIC_{it} + \epsilon_{it},$$

where,

IT: investment in IT technology

VAIC: Intellectual capital value added (see calculation in part 1);

ϵ_{it} : residual

4n. There is a positive relationship between bank's relative efficiency and intellectual capital performance (UK)

In the banking literature, two measures of market share are used for bank efficiency: in terms of deposits or assets. But it is better to measure bank efficiency in terms of the comprehensive measure, total assets, than using a partial measure, because there are different sources for efficiency, e.g. intangible assets. Based on the above discussion, the second hypothesis is:

$$\text{Relative efficiency} = \text{assets/deposits} * 100$$

$$\text{Model 1n: } RE_{it} = \beta_0 + \beta_1 M/Bit + \epsilon_{it},$$

where,

RE: relative efficiency;

VAIC: Intellectual capital value added (see calculation in part 1);

ϵ_{it} : residual

4o. There is a negative relationship between BtoE and IC performance (UK)

Barriers to entry (BE): it can be argued that firms that are protected from competition in their sector by heavy barriers to entry are less more likely to encourage and motivate their staff to generate innovation and this situation might have a negative impact on the performance of the staff (human capital). There are several ways of measuring obstacles to entry in the banking literature, e.g. BE = ratio of fixed assets/ total assets;

$$\text{Model 1o: } BE_{it} = \beta_0 + \beta_1 VAIC_{it} + \epsilon_{it},$$

where,

BE: barriers to entry

VAIC: Intellectual capital value added (see calculation in part 1);

ϵ_{it} : residual

4p. There is a positive relationship between staff cost ratio or efficiency of investment in Human capital (EIHC) and IC performance

The ratio of staff cost to total revenue for bank i in year t will be used to represent the efficiency of investment in human capital.

$$\text{Model 1p: } SC_{it} = \beta_0 + \beta_1 VAIC_{it} + \epsilon_{it},$$

where,

SC: staff cost ratio

VAIC: Intellectual capital value added (see calculation in part 1);

ϵ_{it} : residual

4r. There is a positive relationship between bank risk and IC performance

Bank risk is measured as the ratio of intangible assets to total assets of bank i in year t.

$$\text{Model 1r: } BR_{it} = \beta_0 + \beta_1 VAIC_{it} + \epsilon_{it},$$

where,

BR: bank risk

VAIC: Intellectual capital value added (see calculation in part 1);

ϵ_{it} : residual

4s. companies with greater R&D and AD expenditure tend to have higher market-to-book value ratios, ceteris paribus

R&D expenditures (RD) and advertising expenditures (AD). Besides the three VA efficiency indicators, ... R&D and advertising expenditures to proxy for innovative and relational capital.

$$RD = \text{R\&D expenditures} / \text{book value of common stocks}$$

AD = Advertising expenses / book value of common stocks:

Model 1s: $RD_{it} = \beta_0 + \beta_1 M/Bit + \epsilon_{it}$,

where,

RD: Investment in research and development

M/B ratio: Market-to-book value ratios of equity (MB) is ratio of total market capitalization (share price times number of outstanding common shares) to book value of net assets of the firm;

ϵ_{it} : residual

5. Results of Prior Studies

Nowadays we can say that the abovementioned methods gain enormous popularity while several years ago there are very few studies on intellectual capital performance.

One such study was conducted by Bontis et al. (2000) with the aim to investigate the three components of intellectual capital, i.e. human, structural and customer capital in the service and non-service industries in Malaysia. The study revealed that structural capital has great influence on business performance of both industries. Though human capital was also important in both the industries, it had greater influence on the structure of a non service- based than a service-based firm.

With regards to bank performance and intellectual capital, Pulic, using VAIC model that he developed, measured intellectual capital performance of Austrian banks in 1993–1995 (Pulic & Bornemann, 1999) and Croatian banks in 1996–2000. (Pulic, 2001) Results from these two studies revealed significant differences in bank ranking based on efficiency and traditional accounting measures.

Using the same model, Mavridis studied the performance of Japanese banks in 2000. He also noted significant differences in intellectual capital performance among different groups of Japanese banks. (Mavridis, 2004) Williams investigated the relationship between intellectual capital performance and intellectual capital disclosure practices (Williams, 2001) but found no significant systematic relationship between the two, though, at very high level of intellectual capital performance, there seemed to be a significant reduction in intellectual capital disclosure.

The connection has also been studied empirically among 250 randomly chosen Financial Times Stock Exchange companies and Vienna Stock Companies. (see e.g. International Business Efficiency Consulting, 2003; Pulic, 2000) According to these studies, there is a close relationship between the value creation efficiency of the resources, i.e. VAICTM, and the market value of companies. It also assumes that it is possible to build an index able to measure the efficiency level in the use of structural capital, by complementing the ratio between the human capital value and the total value created by the company (KUJANSIVU and LONNQVIST, 2005; FIRER and

WILLIAMS, 2003; CHEN et Al., 2005; PULIC, 2000b; PULIC, 2000a). VAIC™ is adopted in recent studies in Europe and Asia.

We can continue the list of papers by Bangladesh, Brazilian, Croatian, Finnish and Portuguese researchers. They all have contributed to the application of these methods. The number of publications is growing.

A number of studies have used theVAIC™ methodology in examining IC, and its associations with other business performance measures have not been consistent. For instance, Zéghal and Maaloul (2010) found a positive relationship between IC and financial performance in high-technology industries. Similarly, a study on Taiwan's companies found that IC investment had a positive impact on a firm's market value and financial performance. (Chen, Cheng &Hwang, 2005) However, Firer and Williams (2003) found that physical capital was the most significant underlying resource of corporate performance in South Africa, and Chan (2009b) found no conclusive evidence to support a definitive association between IC and financial performance among Hong Kong companies. (Chu, S.K.W. & Chan, 2011)

Other studies (Chen et al., 2005; Kujansivu, 2005; Shiu, 2006b) have found both human and physical capital to be positively associated with financial performance. More specifically, structural capital has been found to be a critical link that enabled IC to be measured at the organizational level, which means that, for example, if a company has good systems and procedures, then IC efficiency is likely to be high. (Bontis et al., 2000)

In general studies find a positive relationship between IC (or some of its components) and performance, although the exact nature of this relationship varies. For example, Mavridis (2004) found that Japanese banks with the greatest performance were those who were most efficient in the use of their HC, whereas efficiency in physical assets utilisation was less important. On the other hand Bontis et al. (2000) found a positive relationship between financial performance and structural capital (SC) in Malaysian firms, concluding that the investment in IC, specifically SC, can yield increased competitive advantage. Additionally, investment in HC causes a flow-on effect through SC that indirectly affects performance. A German study, Bollen et al. (2005) found that all components of IC have a significant influence over intellectual property (IP), and that IP has a significant direct positive relationship with performance. This demonstrates that IC can have an indirect relationship with performance. Cohen and Kaimenakis (2007)'s results from a study of smaller European firms show that "hard" IC₁ is positively significantly related to profits, whilst "functional" IC₂ is positively significantly related to sales per employee. No relationship is found between "soft" IC₃ and performance. However, Cohen and Kaimenakis (2007) recognise that there may be a time-lag between investment in IC and increases in performance for which they did not control. (Clarke S., 2010)

Unfortunately the aforementioned studies are rarely directly comparable, differing in their measures of both IC and performance. Using VAIC, which provides a standard

measure of IC efficiency, partially alleviates this problem. A number of studies in a range of countries investigate the relationship between VAIC and performance (Firer & Williams, 2003; Chen et al., 2005; Shiu, 2006a, 2006b; Chan, 2009a, 2009b; Ting & Lean, 2009) (see Table 2). Chen et al. (2005) study the relationship between VAIC and performance in Taiwanese listed 7, there is a significant positive relationship with current and prior year VAIC, HCE, and CEE. Their findings however may be explained by the high number of “IC dependent” firms studied in the paper. Shiu (2006b) also finds significant positive relationships between VAIC in current and prior periods and return on assets (ROA), and likewise Ting & Lean (2009) observe significant positive relationships between VAIC, HCE and CEE and ROA. Clarke S. (2010)

Latvian Results and comparative analysis

Summarizing the data from similar and related studies on the current period VAIC impact on the financial ratios carried out in the world, they were summarized in one table (see table Nr 1 “Summary on results of multiple regressions' models, current period”). The results of the study performed by the author for the Latvian banking sector and supplementing of the existing, sometimes contradictory results from other countries enable to draw conclusions about the interaction of the intellectual capital and financial indicators, especially in the cases when the results in the world were not unequivocal. Additionally, the table was supplemented with the new aspects (see table Nr. 2 “Summary on results of multiple regressions' models adding Latvian data (LV), current period t”):

- Value-added intellectual capital (VAIC) is positively dependent on its components, namely, the intellectual capital efficiency and its components: human capital efficiency and structural capital efficiency, as well as on the invested capital (e.g., money) during the current period. That supports also the findings by the researches from other countries, in this case from Malaysia (Muhhamad, N.M.N., Isa, F., Ismail, N., 2007), Greece (Mavridis D. G., 2005) and Great Britain (El-Bannany M., 2008);

VAIC is most poorly explained by the capital employed efficiency. R squared is equal to 64%. In the case of human capital and structural capital it is equal to more than 90%.

- The return on assets (ROA) is positively dependent on VAIC and its components. Thus, the return on assets depends on the manner how efficiently the company adds value to its intellectual capital. These results comply also with the results of globally tested models.

R squared for all five regressions is in the range from 0,342 to 0,387, which means that the selected indicators of the intellectual capital explain over 30% of the assets return process. Best of all ROA is explained by the human capital

efficiency, followed by the Capital Employed Efficiency, and least of all ROA is characterized by the Structural Capital Efficiency.

- The return on assets (ROE). Research results of Latvia generally support the findings of other studies, pointing to a positive and significant effect of the indicator of the intellectual capital on and the effect of separate components of ICE and HCE. The more efficiently the company uses its human capital, the better is the indicator of the Return on Equity.

Results of Latvia cause some doubt in the case of effect of SCE, because they contradict the data of Thailand (Saengchan S., 2009), which, in contrast to the positive and significant effect in Latvia, point to an insignificant and negative effect. This issue remains open until other similar researches are performed.

But the results of Latvia solve the disagreement between the results of Thailand (Saengchan S., 2009) and Great Britain (El-Bannany M., 2008) regarding the effect of CEE upon ROE. The Thai researchers point to a significant positive effect, and the British researchers – to a significant but negative effect. The results of Latvia support those of Thailand, thus they pull the scales towards a positive and significant effect.

- The employee productivity (EP) is positively and significantly dependent on the value added intellectual capital. In this case the determining factor is the indicator of the capital employed efficiency (R squared = 49%), structural capital and human capital efficiency explains it to lesser degree (32 and 38%, respectively). The results of Latvia agree with other studies, which leads to the conclusion that this coherence can be used in the work of the company management. Taking into consideration the very limited number of studies, additional analysis and research might influence these conclusions.
- Asset turnover (ATO). As one could expect, a greater increase of the capital in turnover slows down the assets turnover, namely, negatively influences the indicator of assets turnover (ATO). It is interesting that by explaining the ATO indicator by 90%, upon p-value = 0,0000, the value of the ratio of human capital and structural capital is 0,0000, which means that there is no effect at all, and the sole indicator that influences ATO is CEE. The results of other countries, which in this case are Indonesia (Razafindrambinina D., Anggreni T., 2008) and South Africa (Firer S., Williams S., 2007), are contradictory. Thus, at present it is not recommended to apply this coherence in the strategic planning.
- Operating cash Flow (OCF) is a financial indicator that is negatively and significantly dependent on the VAIC and all its components. Most of all it is influenced by the capital employed efficiency and structural capital efficiency (R squared = 0,957 and 0,926), least of all – by the human capital efficiency –

35%. In total, the VAIC R squared is 45%. It can be said that this coherence is stable. All banks have a negative sign of the ratio. These results are in contradiction with the sole study on this issue, which is the Indonesian study. (Razafindrambinina D., Anggreni T., 2008) Thus, it remains a red square where additional analysis is necessary.

- Revenue Growth (RG) and VAIC analysis shows that the impact is not observed in the current period.
- Assets to deposits (BRE). The results of Latvia confirm the results of the UK study, supporting the hypothesis about a positive effect of VAIC on the relative efficiency of bank operation. The Latvian study supplements the table also with the tests of component effect, which enables to make the conclusion that the effect is reached due to the positive and significant impact of the human capital efficiency. The effect of the structural capital and of financial capital is not significant in the case of Latvian banks. The indicators explain the assets to deposits indicator by about 80%, thus allowing the authors to arrive at the conclusion that this coherence is very promising in the case of strategic planning.
- Barriers to entry (BtoE). The results of the Latvian study do not confirm the finding of the British researchers (El Banany, 2008) that VAIC negatively and significantly influences the barriers to entry. In the case of Latvia the data shows a positive effect, and it is influenced by HCE and SCE. The individual effect of CEE is negative. Regrettably, the British study does not decipher the effect of components, it is possible that in the case of Great Britain the effect of CEE is dominating, but in the case of Latvia – of HCE and SCE.
- The effect of VAIC on the staff cost/revenue ratio is not significant, as well as the effect of ICE and HCE. The structural capital efficiency and capital value creation efficiency in their turn significantly and negatively influence this financial indicator (R squared is 29% in the case of SCE and 32% in the case of CEE) during the current period.
CEE and SCE results coincide with the indicators of the Thailand study (Saengchan S., 2009), which enables to make the conclusion and which sounds logical that the increase of investment negatively influences the profit in the current period and increases the staff costs, by taking in employment new employees and investing money in training, for example, with new databases that is an example of the structural capital. The effect of the VAIC indicator is in contradiction to the results of the study in Thailand, which demands an additional analysis.
- Bank risk (BR) is not influenced by VAIC and its components.

There are still some data missing such as Advertisement expenditure, R&D expenditures, Revenue growth results have to be calculated. Nevertheless we have enough information to summarize the findings for the current period described above:

The findings of the first group prove that:

- value Added Intellectual capital positively affects ROA, ROE, Employment productivity ratio, bank relative efficiency ratio, staff to cost ratio and revenue growth;
- intellectual capital efficiency has positive impact in current period on VAIC, ROA and ROE;
- human capital efficiency positively affects VAIC, ROE, Employment productivity, and revenue growth;
- structural capital efficiency has significant and positive impact on VAIC and ROA;
- capital employed efficiency positively affects employee's efficiency and market to book share.

The findings of the second group show that with certain degree of ambiguity (for example level of significance):

- structural capital efficiency CE positively affects Revenue growth and market to book share;
- capital employed efficiency positively affects VAIC and Asset turnover and revenue growth;
- time have small positive influence on VAIC.

The third group shows results that are not unique but controversial:

- the impact of Human capital efficiency on ROA, asset turnover, operating cost flow and market to book share;
- the impact of Structural capital efficiency on Return to equity, employment efficiency, asset turnover and operating cash flow;
- the impact of the Capital employee's efficiency on Return on Assets (though mostly significant and positive), return on equity (though Latvian results show also positive impact) and operating cash flow.

Fourth group shows how many grey cells – unanswered questions we still have preceding the results of the analysis. For example, according to Taiwanese suggestion R&D and advertisement expenditure may capture additional information on firms' innovative capital, an important component of structural capital. Latvian results add the food for thought.

Conclusions

Intellectual capital evaluation and different scope of the related questions is one of the most challenging and intriguing fields of the research in the modern management theory. The range of questions is wide and offers a lot of research directions.

Authors of the current research have chosen VAIC model for the evaluation of the IC and its components for the analysis. This model is unique as it provides managers with relatively easy and not subjective approach for the IC evaluation, that can be applied for the big number of enterprises and allows comparing the progress both along time and sector scale.

A number of studies have used the VAICTM methodology in examining IC, and its associations with other business performance measures have not been consistent.

Paper provides the summary on the historic findings of the previous studies, analysis of the findings and comparison with Latvian data up to 2010. There are no previous studies in Latvia on this matter.

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Table 1

Summary on results of multiple regressions' models, period t

	VAI C	ROA	ROS	ROE	NP	ATO	OCF	RG	CTA	MB	Years	CIV	MR	IIT	BE	BtoE	EEIC	BR	
VAIC /BPI		S+(UK); S+(In); S+(Th); S+(Ta)		S+(Ta) S+(UK)	S+(Ta)	S+(In)	S+(In)	S+(In) S+(Ta)	S-(Th)	S+(Ta), differ on bank (Tu)	N+(Ma) S+(Gr)	N+ (Fi)	S+ (Th)	S- (UK)	S+ (UK)	S- (UK)	S- (UK)	S+ (UK)	
ICE (HCE +SCE)	S+ (Br)	S+ (Br)	S+(Br)	S+(Br)								S+ (Fi)							
HCE	S+ (Ma) S+ (Gr)	S+(In); S-(Th); S+(Ta); N-(SA) S-(Ja) N(d)		S+(Ta)	S+(Ta)	S+(In) S-(SA)	S+(In)	S+(In) S+(Ta)	S-(Th)	S+(Ta), S-(SA)			S+ (Th)						
SCE	S+ (Ma)	S+ (In); N+(Th); S+(Ta); S+(SA)		N-(Ta)	N-(Ta)	S+(In) N-(SA)	S+(In)	S+(In) N+(Ta)	S+ (Th)	S+(Ta), N+(SA)			S+ (Th)						
CEE	N+ (Ma) S+ (Gr)	S+ (In); S+(Th); S+(Ta); N-(SA), S+(Ja), S-(Br), N (Ind)	S+(Br)	S+(Ta) S-(Br)	S+(Ta)	S+(In), N+(SA)	S+(In)	N+(In) S+(Ta)	N+ (Th)	S+(Ta), S+(SA)		S+ (Br)	S- (Th)						
R&D		S+ (Ta)		N-(Ta)	N-(Ta)			S+(Ta)		S+(Ta)									
AD		S-(Ta)		S-(Ta)	N-(Ta)			N+(Ta)		N-(Ta)									

Groupings of results – colors:

- the results coincide in terms of significance (significant and non-significant) and direction (positive or negative);
- the results by countries are similar with majority of the data but with minor differences by country;

Source: prepared by the authors

- results are controversial;

- not enough information, there is only one research on this issue.

First column – Intellectual capital variables:

- VAIC – Intellectual capital value added;
- ICE – Intellectual capital efficiency = Human capital efficiency + Structural capital efficiency,
- HCE – human capital efficiency,
- SCE – structural capital efficiency,
- CEE – capital employed efficiency,

First row – Financial ratios:

- ROA: return on assets
- ROS: return on sales
- ROE: return on equity
- EP: employee productivity
- ATO: asset turnover
- OCF: operating cash flow
- RG: revenue growth
- CTA: Costs to assets
- MB: market to book value
- Years
- IIT: Investments in IT
- BRE: relative bank efficiency
- BtoE: barriers to entry
- IEHC: efficiency of investments in human capital
- BR: bank risk
- CIV: calculated intangible value

Meanings in the table – results of econometrics:

- S +: significant and positive,
- S -: significant and negative,
- N +: non significant positive,
- N -: non significant negative,

Meaning in the table in brackets – countries:

- Br – Brazil;
- In – Indonesia;
- Th – Thailand;
- UK – United Kingdom;
- Ta – Taiwan;
- SA – South Africa;
- Ma – Malaysia;
- Ja – Japan;
- Fi – Finland;
- Gr – Greece;
- Tu – Turkey;
- Id – India;
- Ba – Bangladesh.

Table 2

Summary on results of multiple regressions' models adding Latvian data (LV), current period t

	VAI C	ROA	ROS	ROE	EP	ATO	OCF	RG	CTA	MB	Years	IIT	BRE	BtoE	EIHC	BR
VAIC		S+(UK); S+(Im), S+(Th), S+(Ta), S+(LV)	S+(Ta) S+(UK) S+(LV)	S+(Ta) S+(LV)	S+(Im), NA (LV)	S+(Im), N-(LV)	S+(Im), S+(Ta) N+(LV)	S-(Th)	S+(Ta), differ on bank (Tu)	N+(Ma) S+(Gr)	S-(UK)	S-(UK) S+(LV)	S+(UK) S+(LV)	S+(UK) S+(LV)	S+(UK) S+(LV)	S+(UK), N+(LV)
ICE	S+(B r), S+(LV)	S+(Br); S+(LV)	S+(Br)	S+(Br) S+(LV)	S+(LV)	NA (LV)	N-(LV)	N+(LV)					S+(LV)	S+(LV)	S+(LV)	N+(LV)
HCE	S+(Ma) S+(G r); S+(LV)	S+(Im); S-(Th); S+(Ta); N-(SA); S-(Ja) N(ld), S+(LV)		S+(Ta) S+(LV)	S+(Ta) S+(LV)	S+(Im) S-(SA) NA (LV)	S+(Im) N -(LV)	S+(Im) S+(Ta) S+(LV)	S-(Th)	S+(Ta), S-(SA)			S+(LV)	S+(LV)	N-(LV)	N+(LV)
SCE	S+(Ma) S+(G r), S+(LV)	S+(Im); N+(Th); S+(Ta), S+(SA); S+(LV)		N-(Ta) S+(LV)	N-(Ta) S+(LV)	S+(Im) N-(SA) NA (LV)	S+(Im) N -(LV)	S+(Im) N+(Ta) N+(LV)	S+(Th)	S+(Ta), N+(SA)			N+(LV)	S+(LV)	S+(LV)	S+(LV)
CEE	N+(Ma) S+(G r), S+(LV)	S+(Im); S+(Th); S+(Ta), N-(SA), S+(Ja), S-(Br), N (Ind), S+(LV)	S+(Br)	S+(Ta) S-(Br) S+(LV)	S+(Ta) S+(LV)	S+(Im), N+(SA) NA (LV)	S+(Im) N-(LV)	N+(Im) S+(Ta) S+(LV)	N+(Th)	S+(Ta), S+(SA)			N+(LV)	S-(LV)	N-(LV)	S-(LV)
R&D		S+(Ta)		N-(Ta)	N-(Ta)			S+(Ta)		S+(Ta)						
AD		S-(Ta)		S-(Ta)	N-(Ta)			N+(Ta)		N-(Ta)						

Source: prepared by the authors

FINANCIAL STRATEGY OF THE INSURANCE ORGANIZATIONS IN BELARUS

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Abstract

The research main task consists in defining the major factors influencing a choice of financial strategy of the insurance company, taking into account interests of proprietors and managers of the insurer for development of such financial tools which would allow strengthening a financial condition of the insurer. The choice of the administrative decision in many respects depends on the policy spent by the state on granting of preferences to insurance or its rigid regulation. Belarus has proclaimed now liberalization of state regulation of insurance. And in these conditions first of all on heads of the insurance organization responsibility for a correct choice of financial strategy of the further development lies.

Keywords: *insurance, finance, strategy, state regulation.*

Introduction

In the conditions of recurrence of development of world financial crisis and close economic international contacts it is difficult to say that any state will be not mentioned by its consequences. First of all the crisis phenomena amaze financial institutions, such as banks, investment funds, the insurance organizations which are operating in the activity in basic monetary with the capital and carrying out important social function. Therefore a bicycle a role of a prediction of development of crisis processes in economy chief managers of the insurance organizations which should be based on the detailed operative analysis of all factors influencing realization of activity of the insurer.

The purpose of researches consists in revealing of the factors influencing a choice by proprietors and managers of the insurance organizations of financial strategy for the long period of time on the basis of the analysis of reached financial indicators taking into account the developing economic situation. Various interests of proprietors and administrative potential which should be taken into consideration in the course of development of applied tools of financial influence on development and successful functioning of the insurance organization are for this purpose studied.

External and internal factors

The factors influencing a choice of financial strategy of the insurance organization, it is possible to divide on external and internal.

The basic *external* factor which is necessary for considering for acceptance of the financial decision is a state policy in the field of financial regulation of insurance sector. In Belarus over the last ten years red line of the insurance legislation was lobbying of interests of the state insurers: only at the conclusion with them of contracts of insurance premiums concern on the expenses considered at the taxation of profit of the organizations; only it is authorized to them to spend less kinds of obligatory insurance; only at them the large state enterprises etc. In these conditions to nonstate insurers can be insured it was necessary to raise only quality of the services, and such examples are in the Belorussian market.

For example, Open insurance joint-stock company “B & B Insurance Ko”, without having a state share in an authorized capital stock and, accordingly, deprived of any state preferences, confidently takes the second place on insurance the market. It is possible to assume that declared by the state in the beginning of 2011 economy liberalization, including the market of insurance services, only will positively affect development of the given insurer if the new proprietor – the French insurance company “AXA” doesn't change the steady financial strategy developed for twenty years (6).

The basic *internal* factors are, first, system effectiveness of management of the insurance organization, its flexibility in adaptation to external changes, to work in the growing and falling markets of insurance services; and, secondly, competence of the persons, making administrative decisions.

Thus, the choice of a direction of development of insurance business should be based on modern theoretically well-founded principles of management taking into account a changing conjuncture of a foreign market and internal organizational structure. Hence, working out of financial strategy should begin with gathering of a statistical material, its analysis as a whole on the market and on the concrete insurer on such indicators as average awards, losses, including by insurance kinds so that it was possible to be guided, the tariff policy and management of unprofitableness is how much effectively spent.

However separate, basically the small companies, try to analyze not the market and tariff strategy of competitors in insurance, and to rely on the previous experience, analyzing the profile of risk only for a substantiation of treaty provisions. Unfortunately, this work becomes, as a rule, once a year, in December or the beginning of January, before the statement the next calendar year new tariffs and insurance conditions, or on the instruction of a regulator of the insurance market in connection with the increased unprofitableness of a kind of insurance for accounting quarter.

Interests of proprietors and managers of the insurer

For definition of the purposes and management mechanisms insurance business it is necessary to consider interests of proprietors and managers of the company. Among them it is possible to allocate:

- the *material*: aspiration to improvement of financial results, i.e. growth of profit and increase of capitalization of the insurance or resafety company that will allow to receive in the future considerable dividends on the invested capital;
- the *non-material*: career growth, change of system of values, execution of the universal and creative missions.

It is necessary to notice that insurance business is one of the most dangerous kinds of investments of money resources since completely depends on financial maneuvering in the conditions of uncertainty and action of the theory of probability of approach of insured events. However, at favorable business dealing it can bring and ultrahigh dividends. Therefore from the named two basic interests of proprietors and managers of the insurer the most important is the first – material interest.

Management functions are carried out by the head of the insurance organization who reports to the proprietor for business plan performance, for the arisen ruptures between the plan and the fact. If the objective reasons of backlog of the company in development aren't revealed, the proprietor involves experts, auditors for the purpose of independent diagnostics, development of the program of elimination of lacks and a series of measures within the limits of development strategy. Re-structuring which usually accompanies these changes in the insurance company, can concern control systems, or an organizational infrastructure, actives and business processes. Thus all spent kinds of insurance are divided on two categories are what the insurer can supervise independently and on what the decision on their transfer on outsourcing is made. In insurance sphere can transfer to outsourcing of sale of insurance services, legal issues, real estate, information support, reinsurance, etc.

Management tools

In the conditions of bright display of the external factor influencing a choice of financial strategy of the insurer, a prevalence of material interests of proprietors and managers in their aspiration to improvement of financial results at the expense of growth of insurance premiums not always leads to growth of profitableness and financial stability of the insurer. Over the last 10 years the Belarusian state twice programs of considerable five years' growth of insurance premiums. From them the legislation in dependence puts the specification of expenses on conducting business which and shouldn't exceed now 35% of a total sum of receipts. Otherwise expenses can be reflected in the account only as use of own means. However practice of last

years has shown that in a pursuit of volume of receipts of insurance premiums insurers lose vigilance and incur dangerous financial risks, obviously unprofitable, at times ruinous which lead to inadequate obligations at approach of insured events.

So, unprofitableness of insurance company ISP “ZEPTER INSURANCE”, created two years ago the foreign investor, because of inept management has annually increased and for 2010 the loss has almost reached volume of the enclosed capital – more than 5 billion Belarusian rubles (5).

In the conditions of the announcement the course state on liberalization should change and tools of realization of financial strategy of the insurer, both insurance, and investment. It is possible to carry to the basic technologies of increase of efficiency of activity of the insurer:

- a diversification of risks;
- underwriting;
- calculations;
- management of insurance and safety business processes.

Management of the risks inherent in activity of the insurer, is realized by use of various methods of transfer of the risk inherent both its obligations, and actives. Number of ways of a diversification of insurance risks concern reinsurance and insurance obligations. The diversification of actives and use of derivative financial tools concern number of ways of a diversification of general management risks.

Risk management – the new type of service, rendered by the insurance and re-safety companies to the clients. They are following:

- a risk estimation in sense of dangers to which it can be subject;
- a degree and probability of causing of a damage as a result of influence of such dangers;
- a calculation of the most rational and global insurance covering for the given object of insurance;
- a definition of conditions of realization of insurance and an economic justification of rates;
- a liquidation and minimization of losses in case of their occurrence;
- a substantiation of the size and expediency of resafety protection;
- an inspection of risk and realization of control measures behind it;
- an estimation of possible consequences of insured event, for example, stay of process of manufacture, loss of incomes, default of treaty obligations, responsibility occurrence before the third parties. (Беретнов 2009)

Taking into account achievements of scientific and technical progress, occurrence of innovative technologies, an aggravation of necessity of protection of environment, the risk estimation is rather actual and perspective line of activity of the insurer for attraction of clients.

Underwriting in insurance operations means procedure of selection, an exception and classification of risks, definitions of rates of an insurance premium; process of consideration of offers on insurance and the analysis of the information containing in them; classification of the accepted offers by type and risk degree, and also under the corresponding rates of the award established for each of units, exposed to risk.

For the purpose of specification of influence of economic and geographical factors on risk of insurance the information on an industry and a territorial arrangement of manufacture is important. So, the description of features of activity of the applicant, features of territory of insurance, etc. can form the basis for removal of the decision on acceptance on insurance or refusal in an insurance covering. The description of essence of activity of the applicant, history of losses, kinds and level of possible losses form the basis for formation of a limit of responsibility, structure of own deduction, establishments of the size of an insurance premium etc. In practice at the insurance companies there are problems in reception of the corresponding full information because of unwillingness of insurance brokers to disclose data on the clients.

Actuarial calculations represent system of the settlement methods based on mathematical and statistical regularities, regulating mutual relations between the insurer and the insured. They are spent taking into account the law of great numbers with the help of which in the form of mathematical formulas the mechanism of formation and an expenditure of insurance fund in the long-term insurance operations connected with life expectancy of the population, i.e. in life insurance and pension is reflected. At the expanded interpretation to *actuary* to calculations carry calculations of tariffs on insurance any kind, including insurance on a case of physical inability and property insurance, with their help the share of participation of each insured in creation of insurance fund, i.e. the sizes of tariff rates is defined. The conducted researches of influence of a choice of a method of formation of insurance reserves in life insurance on financial result from insurance operations have shown that correctly chosen financial strategy in a part *actuarial* calculations can help to keep financial stability of the insurer of life even in the conditions of considerable inflate.

Management of insurance and re-safety business processes occurs through the conclusion of contracts of insurance, their renewal and settlement of losses.

The conclusion of new contracts of insurance among physical and legal bodies probably by means of advertizing, marketing, collective and individual conversations with the purpose of attraction of insures. Thus insurance intermediaries are guided by disclosing of advantages of separate kinds of contracts of insurance in the concrete insurance company. Renewal of contracts (prolongation) is one of forms of change of treaty provisions of insurance. Changes can be carried out by the underwriter, the insurer, the insurer for the purpose of increase in the period of insurance responsibility or the broker for the purpose of renewal of insurance for yet not complete financial and economic operation. Settlement of losses assumes calculation of the amount of

damage, subject to compensation as a result of insured event. The basis for application of the given procedure is the statement of the insured on the contract of insurance.

Conclusions

The purpose of financial strategy of the insurance organizations in the conditions of overcoming of consequences of world financial crisis is maintenance of the stable and balanced rates of increase of insurance premiums, profits and solvency preservation. As the basic components of financial strategy are optimization of structure of the capital, increase in volumes of receipts of insurance premiums, a diversification of an investment portfolio and reduction of expenses the basic attention at carrying out of the analysis of financial indicators for the last period should be given such indicators as profit, volume of receipts of insurance payments, volume and level of payments insurance premiums or maintenance, level of own deduction, a diversification of re-safety protection, etc. Timely revealing of deviations from the set strategic values can promote fast acceptance of financial decisions for change of arising negative tendencies.

Realization of the complex approach of proprietors and managers of the insurance organization in formation of financial strategy of the insurer in a combination to application of effective tools of financial influence on process of insurance, reinsurance and investment will allow reaching real qualitative and quantitative jump in development of such socially important branch of economy, as insurance.

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TRUE VALUE OF LONG-TERM TANGIBLE ASSETS AS A BACKGROUND FOR COMPANY'S SUSTAINABLE DEVELOPMENT

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Abstract

Currently Latvia, like many other countries of the world, faces the need to ensure that the financial accounting is capable to provide a true and fair conception of the enterprise development and to serve the enterprise management as an essential information source. The aim of the present paper is to study the criteria of accounting and valuation of long-term tangible assets, to recognize the actual problems in the Latvian accounting system, to prepare proposals for tackling these problems and improving the accounting methods. To achieve this aim the authors set the following tasks: to analyse the theory of long-term tangible assets and estimate accounting methods; to analyse the conditions of recognition, valuation, and revaluation of long-term tangible assets.

Keywords: *long-term tangible assets, true value, accounting and valuation, valuation and revaluation.*

True and Fair Conception of Asset Classification

Currently Latvia, like many other countries of the world, faces the need to ensure that the financial accounting is capable to provide a true and fair conception of development of enterprises and to serve the enterprise management as an essential information source. This necessity particularly refers to the long-term tangible assets because of their high percentage in the total of assets (making in Latvia 46% of the total of enterprises' assets) and the development of immovable property market, having caused an intensive, broad and varied movement of long-term tangible assets, such as purchasing, selling, alienating and etc. (Keiņš, Zariņa 2006: 211)

Foreign and Latvian scientific research, publications by the International Accounting Standards Committee, the normative documentation of the USA, Germany, Russia, Great Britain, Sweden, Poland, Japan, Estonia, Lithuania, and other countries, publications and materials of the scientific conferences and seminars, documents of the international and regional organizations, related to recognition conditions and analysis of the accounting methods of long-term tangible assets together form the methodological background of the present research.

The object of the research – the long-term tangible assets and methods of their accounting, valuation and revaluation.

The monographic, logically constructive as well as methods of analysis and synthesis were used to study the problematic elements or components of the process, to synthesize the interrelationships or to formulate regularities accordingly.

It is essential for every commercial company to get a true and fair conception of the classification of its assets, their valuation and revaluation, as well as of the capitalization of costs. However, up to now, these issues to a great extent have been left out of the necessary accounting theory and practice, as well as out of the scope of legislation. In addition, the respective scientific studies demonstrate the fragmented and insufficiently comprehensive character.

Value of Long – term Tangible Assets

The research has been carried out and the projects have been prepared in Latvia with the aim to improve the accounting of long-term tangible assets. However, until now, it has not been possible to come to a successful agreement on what should be accounted and how it should be accounted, and it is impossible to do it without the above-mentioned unified approach. Such orientation requires providing the complete conception of all kinds of resources, being at disposal of commercial companies, and of the effective use of them.

Owing to the development of immovable property market, the movement of long-term tangible assets through purchase, sales, alienation, exchange etc. has become more intensive, broader and diverse. Consequently, there is an increasing need for of report data comparability on a broader scale – from the local to the global. The approach of harmonization widely used today can be considered as a factor furthering the comparability of financial reports. As a philosophical category it means the compatibility, the coherence of the parts of things and phenomena, the merger of various components in the single organic entity. (KeišsZariņa 2006)

It is essential that harmonization of the accounting process does not exist in an isolated way, because it is under the influence of the economic, political, and social as well as a different other factors on both the national and international level. The provision of a flexible approach is an obligatory precondition for the process of harmonization.

The study of interpretations of the definition of the “*accounting harmonization*” and its adaptation to the accounting practices lets us to conclude that the principal characteristic of the harmonization is an attempt to connect and to classify different accounting systems, i.e., to develop their formal standardization, at the same time, retaining the essential differences immanent to every system. Therefore, the harmonization should be regarded as the most appropriate way to achieve the universal comparability of financial information. Such harmonization considerably facilitates the process of estimation of the economic situation and the analysis of financial reports of enterprises from different countries, thus, activating the capital and investment flow between countries, decreasing the costs of preparation of the financial reports by trans-national enterprises and furthering the formation of a common accounting system on a world-wide scale. (Barniv, Myring 2006: 87)

The necessity to reevaluate is usually caused by the fact that the accounting value no longer corresponds to the possible market value expressed as the decrease or increase in the value of long-term tangible assets, which has not been reflected in the accounting.

It is assumed in accounting that the assets become accounted at their acquisition price, but written-off at their liquidation value. However, the disagreement occurs regarding the question at *what value the assets must be shown during the intermediate term*.

In the Latvian normative acts, the value of long-term tangible assets, at which they must be accounted, is formulated in different ways. The problem cannot be solved without the unified terminology and appropriate interpretation in the *Annual Accounts Law*, the laws *On Consolidated Annual Reports*, *On Accounting*, as well as in the *Latvian Accounting Standards*.

In the Latvian legislation, the valuation of long-term tangible assets is regulated only by Clause 154 of the *Commercial Law*, which stipulates the valuation of tangible investment. When a limited liability company is established, the tangible investment is valued by an expert or by the founders of the company themselves depending on the total value of investment. The *Commercial Law* stipulates the calculation of the “*common value*” that is not defined in any normative enactment.

Item 29 of the *Annual Accounts Law* defines that the assets, the value of which essentially exceeds the acquisition costs, the production costs or their balance sheet value of the previous year, may be valued according to their highest value, if it might be assumed that this increase in value has a long-term character. It follows from the above-mentioned that revaluation is permitted, but not required by the Latvian legislation.

The question arises - Why not to value the asset at its *fair value*, fixing the possible time of its use and, therefore, also its depreciation normative? It is important to ascertain the meaning of the broadly used concept *fair*, especially, when providing the financial information. The International Accounting, Auditing Standards (IAAS) as well as the Latvian Accounting Standards (LAS) set forth that financial information has to provide a *true and fair* conception of company's financial information. However, the definition of *what does a clear and fair conception* means is neither

included in the Directive 4 of the EU nor in the IAS, nor is be found in the Latvian normative documentation. (Bo-Göran Ekholm & Pontus Troberg 2011)

At the same time, several authors have expressed their viewpoint on a *true and fair* conception. A broad characteristic is given by M., D. Ordelheide, M. Sherrard, et.al. (Arden 2007:657) However, even they have not come to a definition, but restricted themselves to the remark that the meaning of a *true and fair* conception should be sought within the context of accounting principles of the respective country. K. van Hulle has gone a step further. (Smith 2011) His view is that the Directive 4, which includes a range of requirements for preparation of the financial reports, has to provide such information, which would be assumed as a *true and fair* one by the users, thereby, satisfying their needs for the objective accounting. The author's opinion is that the difficulties related to the definition of *fair value* are caused by the heterogeneous approach to this area in different countries, creating a desire to develop the definition according to the existing conceptions.

It has been asserted by J. Sokolov and S. Bickova, who have interpreted the possible quintessence of a true and fair conception in three various ways, taking into consideration the different attitudes to it in several countries of the world. (Соколов & Бычкова 2009: 87) They consider that:

- all accounting data are relative; the introduction of a strong normative regulation leads to the comparability of data and to the homogeneity of mistakes made in them;
- only the company's management recognizes the real value of company's resources and is capable to evaluate the appropriateness of different methods under the specific circumstances;
- the truth is the dominance of the essence over the form, because the acting persons understands the essence, whereas the forms, i.e., the normative instructions, are created by those, who do not know the essence. However, the question what should be recognized as the essence and what as the form depends on who is entitled to make the decision, i.e., this process has a subjective character.

To get a true conception of different practices of other countries, the author has studied the special literature and normative documentation of several countries.

Asset Revaluation

As a result of the research, the authors have found out that in many countries the revaluation of the long-term tangible assets after their initial recognition is not permitted at all, considering that in such way the assets of the company are artificially increased (e.g., in the USA, Japan, Germany). The revaluation is not permitted in Estonia and Lithuania, unless the long-term tangible asset must be sold. (Platikanova & Nobes, 2011) The countries can be divided into two groups based on what grounds the value of the long-term tangible assets are valued:

- the countries, where the initial costs is the only valuation method permitted (Germany, Japan, the USA);
- the countries, where alternative valuation methods are permitted.

The fair value or market value of the asset may differ according to its use. The IAS 16 recommends defining their value on the basis of the present use. This assumption can be found also in the normative documentation of other countries, where revaluation is commonly permitted. For example, the market value of the land may differ essentially; it depends on its use: either for agricultural needs or for building of a trade centre on it.

As a result of the research, the authors found that in many countries revaluation is not permitted at all. It is due to the assumption that it might lead to an artificial increase in the commercial companies' assets. The USA, Japan and Germany represent this viewpoint. Alver L. and Mackevicius J. have found that similar attitude is typical to our neighboring countries – Estonia and Lithuania. (Alver 2005: 19), (Mackevicius & Paupa 2007: 685) The revaluation of assets in these countries is not permitted, unless the selling of the asset is being planned.

The necessity and procedure of the revaluation of the long-term tangible assets has been the subject of research of several authors in different countries, for example, W. P. Birkett, R. G. Walker (Birkett & Walker 2008: 41), D. Zeghal, R. Reyly, R. Schweihs and others. (Zeghal 2004: 48) The common viewpoint of all authors is the following: if the value of an asset has changed then it is necessary to find a new valuation basis. The authors of this research agree with that opinion, stressing that it is important to emphasize the quintessence of value changes and the future use of the long-term tangible asset.

The fair information may be provided by the reflection of its quintessence. The IAAS and the LAS also emphasize that the quintessence, but not the form, is primary. Therefore, the authors' recommendation is to take the economic quintessence of the long-term tangible assets' use as a basis, when carrying out the valuation after their initial recognition. Consequently, the following criteria should be taken as a basis for definition of the value:

- if it is planned to use the asset in future economic activities (production, service rendering, administrative needs), it should be valued at its use-value;
- if the asset is held for sale at a suitable moment – at market value;
- if it is intended to sell the asset, then it should be valued at market value.

The methods of valuation at market value usually are based on the comparison of the real estate. During the valuation process the evaluator has to carry out a corresponding study, a competent analysis and a substantiated preparation of conclusions. The evaluator has to analyse all data comprehensively and to document them, taking into account the information available, the market tendencies, the information on similar transactions and so on. All valuations depend on the evaluator's personal view, however, it must be indicated in the evaluator's conclusion whether the market value derived was based on the market information or on his own subjective opinion predominantly due to the lack of market data or the specific character of the object.

Occasionally, there is a necessity to reevaluate the long-term tangible assets not intended for sale. A **decrease in value** of the long-term tangible assets may occur, if:

- the asset has been damaged by accident or careless exploitation;
- the asset has physically worn out prematurely, as a result of excessive exploitation, as the usual depreciation norms are no longer applicable to the actual exploitation conditions;
- the asset is technologically outdated;
- the price for the analogical assets has decreased. (Keišs & Zariņa 2006: 214)

Commercial companies carry out revaluation of the assets rarely due to the following reasons:

- to avoid the additional accounting of the revaluated assets while accounting corporate income tax;
- commercial company's management does not estimate the impact of losses made by the inaccurate accounting of costs of the valuation of assets and of the production and service costs, as well as of the acquisition of new equipment;
- the insufficient estimation of the impact of market value.

Conclusions

If the long-term tangible asset is not revaluated, then the balance sheet assets do not reflect the actual value of the assets for the respective period, and the production costs and services do not reflect the actual costs. There are situations, when the Road Traffic Security Service records a vehicle with the LVL 0,00 value, but the commercial company still writes off the fuel for its use. The situation is similar with the one of the computers of LVL 0,00 value that are still functioning with their software programmes and depreciated machines.

A disparate situation may occur, for example, in case of purchase of a hotel situated near a production building at a high market price. It may create an increase in market value of the production site, which is not planned for sale. The commercial company has intended to continue the use of its asset in production and, therefore, there is no justification for an artificial increase in the balance sheet value. The calculation of market value of such objects would provide the misleading financial information to users. If the situation changes and the company's management decides to sell the asset during the accounting period or during some future period, then the asset must be reclassified and valued at a market value.

The State Cadastre Law defines that it is the function of the State Land Service to estimate the cadastre or market value for a fixed time period, taking into consideration the inflation and other factors, existing in the country. However, the actual practice does not follow this definition completely, and the cadastre value is used only for the calculation of the property tax. A solution to the problem of valuation may be the

simplification of the problem by stipulating that the State Land Service in cooperation with licensed real estate evaluators shall regularly carry out the evaluation of the cadastre value (which according to the State Cadastre Law is also the market value). Such information might be made accessible to commercial companies for a fee and used for unified accounting (to disclose the fair value in financial reports) by insurance companies for approval of bank loans, calculation of property tax and other purposes. It might create certain costs to commercial companies, but it would reflect the real estate according to a unified system, which would correspond to its fair value.

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Use of Employment Taxes for Facilitating Innovations in Latvia

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Abstract

Innovations play a fundamental role in the long-term prosperity as they make economy more flexible, dynamic and productive.

The state regulates innovative processes by both direct and indirect methods. European countries differ a lot in terms of technological development, infrastructure and expenses on research. Each of them seeks its own solutions for supporting innovations. The range of methods and tools of the state-implemented innovation policy in the disposal of these countries is considerably large. The exclusive prerogative belonging to the state here is the legal regulation of innovative processes.

Keywords: *investment, indirect taxation, tax climate, employment taxes.*

Introduction

In order to create a favourable tax climate in Latvia the facilitating role of taxes should be increased, thus, encouraging innovation development. Due to the changes in the external conditions many standards of employment taxes have become inefficient.

Indirect state-implemented innovation support methods provide for a mediated incentive for innovative activity; they require significantly smaller budget expenses compared to direct financing and are capable of comprising significantly larger amount of innovation subjects.

Results and Discussion

A prerequisite for handling the crisis situations, economic and social security is the steady expansion of innovative manufacturing and broad development. This results in higher employer earnings, the number of workers and their earnings. The end result is increased tax base and budget revenues. That is the truth, which is understood by operators, scientists, educators and other stakeholders as well as various state-level program developers. Programs devoted to the development of innovative activities are

underpinned by a range. Only the result is very sad: in terms of innovation, Latvia ranks in the last place in the European Union. All programmatic documents have the same shortcoming: general formulation of goals and objectives, no specific instrument, maturity, responsibility. For example, one of the most important strategic documents – Business Competitiveness and Innovation Promotion Programme for 2007–2013 (Cabinet Order No. 406 as of June 28, 2007) as the program is designed for innovation (3p) states: to promote national innovation system capacity and efficiency, creating an innovation-friendly regulatory, financial and informative environment. This task starts with the words *to stimulate, promote, enhance, support* and so on. How to encourage, stimulate and support? How long will it take to achieve a concrete result? Unfortunately, answers are not provided. As a result, innovations are very slowly introduced, new innovative industries emerge and new jobs are slowly created. It appears that the program developers do not know how to specifically address innovative economic development problems.

The Latvian Employers' Confederation summarizes the business and scientific obstacles. By the way, traders note the absence of a mechanism to attract businesses that would invest in innovation: the discount, allowance, venture capital and other mechanisms; the Latvian scientists are often unable to create a product that would be an interesting business, the government support to those companies which have already applied research, private finance scholars have limited ability to sell their ideas, the scientists lack skills in financial management and marketing.

The scientists mention the following obstacles: for small and medium-sized enterprises – lack of free money, most operators cannot afford to invest money in innovation, which will pay off in several years. There is a lack of information exchange between scientists and entrepreneurs in Latvia; weak national innovation system with effective cooperation among all parties involved in the innovation process (entrepreneurs, researchers, educational institutions and government). The obstacles are mentioned, but no concrete solutions are offered.

The scientists and entrepreneurs should be willing to develop innovative products, labour and business materials. One of the substantive awareness tools is a properly designed tax system. In this case we can speak about the employment tax credits: income tax and social security contributions.

Tax incentives

In the Latvian economic literature, the concept of tax incentives has rarely been studied. The authors believe that tax incentive is a fiscal instrument targeted by national and local government, which must be approved by law and provides tax breaks and other incentives for taxpayers engaged in the priority areas of innovation. It would improve the economy development and benefit the public.

Based on existing studies, the authors summarized the company's internal and external incentives to attract innovation and raised the main influencing factors.

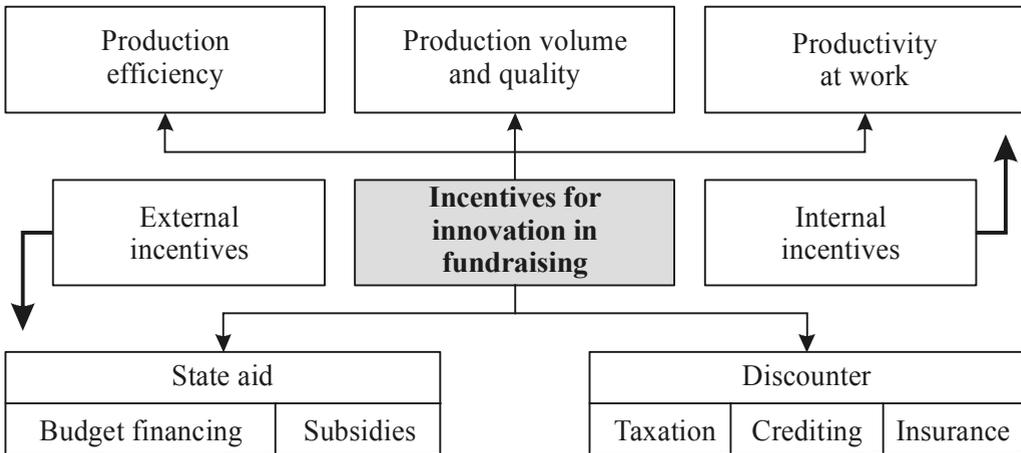


Figure 1. Incentives to Attract Innovation and the Main Influencing Factors

As a result of globalization and competition, it is important to increase production capacity, introduce new technologies through innovative incentive mechanisms thus replacing the old and invalid, which no longer meet the requirements.

Empirical studies show that the country can use both direct and indirect support instruments. By the help of direct state aid instruments, a company introducing an innovation creates a favourable economic environment to renew its facilities, introduce new technologies and promote human resources' training. All these methods are implemented through tax, credit, insurance and price policy. Schematically innovation incentive mechanisms can be reflected as follows.

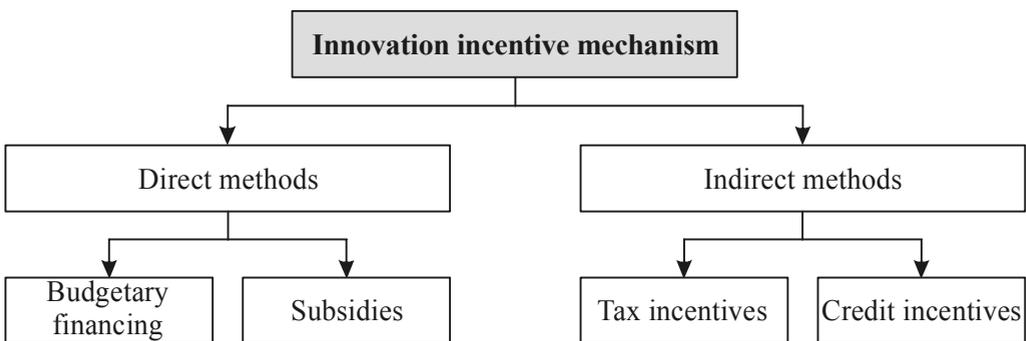


Figure 2. Innovation Incentive Mechanisms

Indirect methods are very simple and attractive compared to direct methods. Defining the tax incentive methods, it should be stressed that they should be any special tax laws. Thus, tax incentives are methods of tax legislation with tax breaks and other tax-related tax incentives that are granted to certain taxpayers who work in priority areas through the introduction of innovations. On the one hand, the government, through tax incentive techniques, refuses the allocation, which would be credited within the Treasury. On the other hand, those funds remain available to the enterprise, which can use them for research and development, innovation and facility upgrading. In a way it gets indirect method efficiency.

The tax incentives include: tax rate reductions, tax holidays, loss carry over to other periods, accelerated depreciation of fixed assets, investment tax credits, tax base reduction, a special tax regime, tax incentives and rebates. Tax incentives are a very wide spectrum of activity.

The authors, using the data of the Central Statistical Bureau, were distributed to the sub-sectors, which together have worked at a profit. Depending on the total amount of profits in the sector and the number of enterprises in this sub-sector, the average profit on sub-branch companies was calculated.

Table 1

Production of Sub-average Profit per Enterprise in 2010

Sub	Total profit sub (million LVL)	Number of enterprises sub-sector	Average profit sub-sector (thousand LVL)
Food products	2,00	619	3,23
Manufacture of beverages	1,90	48	39,58
Manufacture of textiles	0,40	269	1,49
Chemicals and chemical products	0,80	116	6,90
Manufacture of pharmaceuticals	5,00	21	238,10
Computer, electronic and optical equipment	8,00	87	91,95
Other manufacturing	1,80	365	4,93
Machinery and equipment repair and installation	7,20	488	14,75
Total	27,10	2013	13,46

Table 1 shows the industry sub-sectors with average profits made in 2010. According to Table 1, the pharmaceuticals and chemical products had the greatest profits. On average the sector earned only LVL 238,10 thousand. Industry-wide average earnings between sub-sectors in which profits were made, was LVL 13,46 thousand. The data indicate that there is a very profitable small business in Latvia that can withstand the

competition. Good results in the innovation development cannot be achieved without effective tax incentives. It is necessary to create effective fiscal incentives rather than increase tax burden.

The authors offer alternative employment tax incentives. To qualify for these incentives, a taxpayer shall meet the following criteria:

- shall not to be a debtor of the State Revenue Service;
- over the past 2 years has been working without a loss;
- innovation introduction costs will be reduced by 10%;
- payable shall not exceed 10% of the balance sheet total;
- export turnover increase by 10%.

The following parameters can be used for innovation efficiency: the output of capital, profits from the increase of capacity for investment, capital expenditure on the products.

The issue on the state aid instruments to develop and test new forms of support that will help innovative companies grow faster and better is debatable. It is, therefore, important to collect information on the following business items: fixed and variable costs by changes in the innovation; the necessary investment; the cycle of innovation; production design capacity; the price level; the planned profit margin.

For calculations the authors use a real business and call it Delta Company, which employs 10 employees with average salary of LVL 300.

The authors will first consider how the costs of the real business Delta Company increase production capacity and volumes.

Table 2

Cost Table of Delta Company

Realization	Fixed costs	Variable costs	Total costs	Average fixed cost for 1 unit	Average variable cost for 1 unit	Average cost for 1 unit
0	10 000	0	10 000	–	–	–
10	10 000	2000	12 000	1000	200	1200
20	10 000	3600	13 600	500	180	680
30	10 000	4000	14 000	334	133	467
40	10 000	4500	14 500	250	113	363
50	10 000	5100	15 100	200	102	302
60	10 000	5800	15 800	166	97	263
70	10 000	7000	17 000	143	100	243
80	10 000	9000	19 000	125	113	238
90	10 000	12 000	22 000	111	133	244
100	10 000	16 000	26 000	100	160	260

The data presented in the table reflect cost dynamics of Delta Company. The increase in sales volume, increased variable costs. At first, they are growing slowly, as the

economic activity increases, the labour costs are increasing; the company is to hire new employees, specialized staff. The data show that the Delta Company's peak power is reached; the variable costs begin to rise faster compared to the volume of sales. This can be explained as follows: because of increase in the overtime labour costs, while raw material consumption is increasing and due to the production of defective products.

Table 3

Financial Parameters of the Delta Company before Innovation

Year	Sales, unit	Exercise price, LVL	Average variable costs, LVL
2010.	40 000	80	40
2011.	45 000	80	42
2012.	50 000	85	44
2013.	40 000	90	46
2014.	30 000	90	48
2015.	20 000	95	50

If the project is aimed at reducing costs per unit of production, the current and savings alternatives could be used.

$$E = (I_n - I_{alt}) \times A, \quad (1)$$

where:

E – economy;

I_n – the cost per unit of production;

I_{alt} – opportunity cost per unit of production;

A – output.

A positive value indicates the economy, but the size is not sufficient to evaluate the effectiveness of innovation. Any current cost saving requires capital. To determine the payback period, use the following formula:

$$T = V / p + a, \quad (2)$$

where:

T – recovery time;

V – the investments in innovation;

p – average annual earnings;

a – depreciation.

The payback period for innovative equipment is 6 years. After 6 years the demand for that product will decrease and it will be removed from production. The innovative system reduced the production cycle, the average variable costs decreased by 10%, but sales and production power increase by 10%. The innovative installation costs LVL 700 000 for the Delta company but after 6 years the winding value of equipment is Ls 60 000.

Table 4

Economy of Product of the Delta Company before and After Innovation

Year	Sales, unit	Average variable costs, Ls	10% savings	
			Per product unit	Along the entire production, LVL thousand
2010	40 000	40	4,00	160
2011	45 000	42	4,20	189
2012	50 000	44	4,40	200
2013	40 000	46	4,60	184
2014	30 000	48	4,80	144
2015	20 000	50	5,00	100

One of the recommendations was to change the employment taxes on workers who work with innovations and suggestions are as follows: staff working in a particular company should cut payroll tax rate from 25% to 15% of the capital payback period. Employers' SSICP reduced from 24,09% to 20%. To save the state budget from losses, the law specifies that such employees are permitted to join the voluntary social insurance. Employees' average salary is LVL 300.

Table 5

Financial Performance Calculation Table of the Delta Company for 2011

Nr.		Before the innovation	Introducing innovation	Economy of the State budget
1.	Turnover	3,60 million	3,96 million	
2.	Production costs	1,89 million	2,08 million	
3.	Depreciation		0,28 million	
4.	Production capacity	45 000 unit	49500 unit	
5.	Estimated value-added tax	792 000	871 200	+79 200
6.	Estimated personal income tax at 10 employees	6660	3996	-2664
7.	Estimated SSICP at 10 employees	531 908	469 910	-38 002
	Result			LVL + 38 534

The table shows that, as a result of tax reform, the state budget will not suffer. Such procedures shall provide an incentive for companies and employees. The government working on the tax policy changes would reduce labour taxes for the staff working in innovative businesses and priority areas, but innovative entrepreneurs should apply the tax credit in order to create jobs and reduce unemployment.

Further, the authors assess employment taxes and incentives in Latvia.

Employment taxes in Latvia

The employment taxes are taxes related to the employment of people. The following employment related taxes are charged in Latvia:

- the income tax (PIT);
- the social security contributions (SSICP).

Employment taxes are normally paid by the worker and/or employer, and the tax group is included in the employee's income taxes. Mandatory social security contributions are paid by both an employee, employer and self – employed. The decrease in employment, wage reductions, as well as the growing shadow economy is mainly determined by the employment tax revenue.

Capita revenue receipts mainly affected the number of employees, labour costs, the personal income tax allowance and tax relief amount, as well as the minimum wage.

It is debatable as to why wages in other EU countries are higher than in Latvia. Europe (especially Nordic countries) underlines the need to encourage innovation and stimulate research, while Latvia continues to base much of its economy on products with low-added value. For example, in Finland the high-tech export share is above 17%, in Sweden 14%, while in Latvia, only 5%. In Sweden and Finland, the average per capita invested is more than EUR 950 for research and development, but in Latvia only EUR 16. Therefore, wages in Sweden and Finland are much higher than in Latvia. There are a lot of manufactured goods with greater value.

In 2009, strict fiscal consolidation was implemented in Latvia. On July 1, the taxable minimum personal income tax was reduced from LVL 90 to LVL 35 per month. The total personal income tax revenue in 2010 was LVL 778,8 million that is by 7,6% more than in 2009. This is due to increase in personal income tax rate from 23% to 26% in 2010, as well as the new CBA rules and the introduction of employment and wage stabilization.

For 2010, the total personal income tax revenues have been projected in the amount of LVL 822,0 million, but in 2010 the actual performance was about LVL 43,2 million or 5,3% lower than planned revenues, which was significantly affected by the failure of the new CBA rules' benefit analysis, and slower market recovery. According to SRS, in 10 months of 2010, personal income tax revenue from the newly introduced rules (income from capital and capital income, not capital gains, income from the benefits to the worker received from an employer-owned car used for private purposes) was LVL 19,4 million.

PIT revenue in 2011 is based on the wage fund forecast and taking into account changes to legislation:

- the minimum monthly wage increased from LVL 180 to LVL 200 per month;
- personal income tax rate reduction from 26% to 25%;
- PIT percentage of change in the state budget (from 20% to 18%) and local government budgets (from 80% to 82%);

- the non-taxable minimum personal income tax increase in the amount of LVL 35–45 per month;
- increasing the amount of relief for dependents from LVL 63 to LVL 70.

In 2009, after the approved legislation, the policy initiatives that affect the personal income tax revenue base from 2011:

- non-taxable amount reduced from LVL 4000 to 2000 per year as income from agricultural production and rural tourism services;
- income from contributions to private pension funds and investment income from life insurance contracted by the accumulation of funds taxation of personal income tax;
- social insurance contribution rate increases from 9% to 11% if the employee is insured for all types of social security;
- introduction of a separate tax on the company's passenger vehicles for personal use;
- tax amnesty and other measures to reduce the shadow economy.

In view of the above measures, the total PIT revenue in 2011 is planned in the amount of LVL 720,0 million, an increase of LVL 58,8 million or by 7,6% less than in 2010.

Table 6

Personal Income Tax Revenue¹

	2007	2008	2009	2010	2011*
Personal income tax, LVL million	888,0	1029,1	724,1	778,8	720,0
Including state budget	186,5	204,7	124,5	155,6	129,6
Municipal budget	701,5	824,4	599,6	623,3	590,4
<i>growth rates in current prices,%</i>	<i>35,1</i>	<i>15,9</i>	<i>-29,6</i>	<i>7,6</i>	<i>-7,6</i>
<i>% of GDP</i>	<i>6,0</i>	<i>6,4</i>	<i>5,5</i>	<i>6,2</i>	<i>5,5</i>

** in accordance with the Law on State Budget 2011*

The data of Table 6 show that in 2010 PIT tax revenue fell, but in 2011 it is planned to reach 2009 levels.

The SSICP is the largest in terms of tax revenue. In 2010, the SSICP accounted for 34,0% of total tax revenues. In 2010, the social tax revenues amounted to LVL 1093,2 million that is LVL 73,5 million or by 6,3% less compared to 2009. SSICP decrease was mainly due to decrease in the average gross monthly wage and fall in employment. The social tax revenues in 2010 were projected in the amount of LVL103,5 million, but the actual revenues in 2010 were about LVL 10,2 million or by 0,9% less than planned. SSICP simultaneously reduced the growth rate of contributions that are made in accordance with the law for rate reductions.

¹ 2011 Explanations of the state budget

In preparing the revenue plan for the social tax in 2011, the wage bill growth rate that increased by 1,7% compared to 2010 was mainly considered as well as the following changes to legislation.

- Worker SSICP rates increased from 9% to 11% if the employee is insured for all types of social security (the fiscal impact of 2011 – 69,6 million lats in annual budget). Social state funded pension scheme for preservation of 2% (fiscal impact of 2011 – 44,9 million lats in annual budget).
- Increase in the minimum wage from LVL180 to LVL200 per month (fiscal impact of 2011 – 8,4 million lats in annual budget).
- Tax amnesty and other measures to reduce the shadow economy (fiscal impact of the 2011 – 3,2 million lats in annual budget).
- Introduction of a separate tax for the use of business car for personal needs (fiscal impact of 2011 – -3,0) million lats in annual budget).

Overall, in 2011 the proceeds from the SSICP are planned in the amount of LVL 1 174,1 million, which is about LVL 80,9 million or by 7,4% more than in 2010.

Table 7

National Social Security Contributions

	2007	2008	2009	2010	2011*
Social security contributions, million LVL	1265,0	1401,7	1166,7	1093,2	1174,1
Growth rates, current prices, %	32,0	10,8	-16,8	6,3	7,4
% of GDP	8,6	8,7	8,9	8,6	8,9

** in accordance with the Law on State Budget 2011*

As can be seen from the data, the contribution rate forecasted for 2011 was reached in 2009.

Conclusions, Proposals and Recommendations

Assessment of the employment tax changes in recent years leads to a conclusion that these tax incentives are neither related to research and development costs, nor to the priority areas for development. None of the measures referred does promote innovation.

Envelope wages cause great disadvantages for the state budget. The employment taxes promote envelope salaries. The cases of envelope wages are characterized by two trends.

- 1) First, companies do not show all receipts of the worker and a minimum wage is calculated. The companies pay taxes from the minimum wage, but the remainder is paid in envelope.
- 2) Second, employers show that the employees work part-time and work-time tracking table shows less working hours than actually worked. Envelope wages in numbers could not be accurately measured, however, the SRS estimates that more

than half of the employers rated that the average salary is less than or equal to the national minimum wage.

The tax incentives are necessary to encourage foreign investments and their inflow in the national economy, thus enhancing economic development in the country, stimulating economic development in areas with higher unemployment and poorer infrastructure as well as bridging the social gap between major cities and rural areas.

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