

ECONOMICS AND CULTURE

Vol. 12



Rīga 2015

Economics and Culture. 2015, Vol. 12

ISSN 2256-0173

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Articles in the journal are double-blind peer reviewed

Publisher: The University College of Economics and Culture

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Contents

Creating Shared Value in Knowledge Based Society: Expertise, Innovation, Continuity in Management Sciences	5
LOGICAL AND PHILOSOPHICAL CULTURE OF THINKING.....	7
<i>Vilis Daberts (Latvia)</i>	
INNOVATION IN HIGHER EDUCATION IN POLAND AND EXPECTATIONS OF YOUNG POLES ENTERING THE LABOUR MARKET: FACTS AND CHALLENGES FOR THE FUTURE.....	21
<i>Jadwiga Daszykowska (Poland)</i>	
EMPLOYERS' REQUIREMENTS FOR ACCOUNTANTS AND MANAGERS REGARDING PROFESSIONAL COMPETENCE AND SKILLS: A STUDY EXAMPLE OF THE ALBERTA COLLEGE.....	33
<i>Armands Kalniņš, Sigita Ķirse, Olga Čivžele (Latvia)</i>	
CREATING SHARED VALUE, ORGANIZATIONAL LEARNING, AND ENGAGEMENT THROUGH HUMAN RESOURCES.....	45
<i>Gyongyi Konyu-Fogel (USA)</i>	
THE EFFECT OF ADVERTISING ON BRAND MEASURES IN A LOW INVOLVEMENT CATEGORY	57
<i>Michael Levens (USA)</i>	
MARKETING COMMUNICATION OF FASHION EVENTS AND CONSUMERS' EXPECTATIONS	73
<i>Agnieszka Smalec, Barbara Mróz-Gorgoń (Poland)</i>	
MANAGEMENT OF HIGHER EDUCATION INSTITUTIONS: SEARCHING FOR THE WAYS TO GAIN COMPETITIVE ADVANTAGE.....	87
<i>Yulia Stukalina (Latvia)</i>	
CURRENT TRENDS AND MANAGEMENT CHALLENGES OF DEVELOPING THE LIVING LABS	99
<i>Venelin Terziev, Ekaterina Arabska (Bulgaria)</i>	
PLANNING LATVIAN NATIONAL DEVELOPMENT.....	111
<i>Gundar J. King, David E. McNabb (USA)</i>	
THE PERILS OF ARMED DIPLOMACY.....	127
<i>Gundar J. King, David E. McNabb (USA)</i>	

**Creating Shared Value in Knowledge Based Society:
Expertise, Innovation, Continuity
in Management Sciences**

LOGICAL AND PHILOSOPHICAL CULTURE OF THINKING

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Abstract

The author analyses logic and philosophical cut of verbal thinking from the cultural point of view. At the level of skills, thinking is realized without direct reasoning about one's own thinking – we have no knowledge about thinking. We only know how to think, but we do not know how we do it, and also – why we do it. It is possible to speak about logical skills in a broad and narrow sense. The latter manifest themselves in the face of logical and the so-called logical space. As regards the logical culture, we can also speak about the second level of such culture. It contacts with a reflection how we think. Information that is used for logical skills can be described as spontaneous logic, the knowledge connected with a reflection – as reflective logic. The reflective logic not only passively teaches us to see some central points in different discourses, but also influences logic skills and helps to supervise them.

A premise of the analysis of an individual's philosophical culture is the assumption that structural elements of philosophical theories are categories and their variety underlies culture of philosophy. Categories are a function of intellectual development of a person and a certain degree of knowledge with time factor as one of arguments. Existence of philosophical categories makes the theory philosophical. A number of categories of a philosophical net coexist with certain categorial and non-categorial doubles. The high culture of philosophical thinking includes not only certain categories, but also metaknowledge of these categories, metaknowledge of categorial doubles, and meta-knowledge of non-categorial doubles. The high philosophical culture also means that the specific research that applies for the status 'philosophical' is not smaller than the so-called philosophical space.

Culture has always been an integral part, manifestation and a condition of public life. In many aspects, it is possible to carry both spiritual culture and, in narrower sense – culture of thinking. This culture is a structural element (their complex) of our active internal life, active expression of this life and a condition of functioning and thinking development.

The above description of culture highlights the concepts supporting the following interpretation of culture. Culture – everything that the society has created

throughout its history, everything that has been created in the history of mankind, a set of the so-called artefacts.

Such interpretation of culture links both the processes and their outcomes, which are a natural continuation of social processes in social registration. A classic example of such processes is the development of language and thinking. As they already exist among the developed animals, in human environment these processes acquire new breath when they join spiritual cultural phenomena, including rituals, ceremonies, customs, traditions, norms etc.

The second pillar mentioned along with culture is thinking. Many researchers have devoted special attention to this subject¹. Thinking is a diverse phenomenon and, therefore, serious analysis can be carried out only to a few or even one of its aspects. The author's intention is to look at the interaction of thinking and culture, narrowing the research to a logical aspect of thinking and thinking in the field of philosophy.

As regards the interaction of thinking and culture, the author did not consider the influence of cultural factors on thinking and vice versa (L. S. Vygotsky, A. Luriya, A. N. Leontyev, P. Galperin, V. Davydov, & P. Tulviste, etc.), but a certain manifestation of culture (logichy and philosophical) in thinking.

It is possible to tell what is the question of logical and philosophical culture of thinking. Another question – what types of logician exist in language and thinking of an individual? What is this philosophy like, and how to distinguish the philosophical character of this text?

Keywords: *thinking, logical skills, logical culture, logical space, reflective logic, philosophical category, components of philosophical culture, philosophical space*

Logical Culture

Logical thinking and its components have been widely studied in literature. Structural and procedural forms of thinking have been analysed. Nevertheless, this thinking is not reflected in respect of its levels (especially in connection with the sphere of culture). Absence of researches in relation to the level of logical skills, its interaction with reflective level and culture of thinking is very appreciable. The author attempts to discuss these issues as far as it is possible within the framework of this article.

¹ Thinking as an object, in aspects important for article, was studied in works of the following authors: Rudolf Arnheim, Edward de Bono, Jerome Bruner, William James, Pyotr Galperin, Kurt Goldstein, Calvin Hall, Wolfgang Koehler, Oswald Kyulpe, Richard Crutchfield, David Krech, Lucian Levi-Bryul, Norman Livson, Alexander Luriya, Alexey Leontyev, Heinrich Meyer, Donald Norman Allen Newell, Jean Piaget, Richard Paul, Yakov Ponamarev, Giles Poincare, John Radford, Sergej Rubenstein, Herbert Simon, Dan Slobin, Oleg Tikhomirov, Max Verheimers, Lev Vigodski, Robert Voodworth, Otto Selzetc.

It is possible to distinguish two levels of thinking – the level of an object and the reflective level. It can be explained, by using such words as *everything*, *any*, *one of* etc. We say that “tigers are carnivorous” and we add “all tigers are carnivorous” when we ask: “Any tigers...?” We are able to use the word ‘everything’, we know its value, at least, in the sense that we are able to put ‘all’ in a certain place of the statement – to the subject, but not to predicator where the other term – ‘one of’ should be. This level of verbal thinking can be described as a subject because we use terms or when we speak directly about subjects (by means of substantial terms), or we use terms, which are considered as a condition of allocation and the description of a subject situation, but these subjects do not allocate and do not describe by themselves.

At this level, the culture of thinking is expressed through a skill to create a correct statement, distinctions among statements, which can be true, a skill to feel conditions at which such statements can be true, ability to see a correlation between the validity of compound sentences and the validity of elementary statements, a skill to adequately use substantial and logical term, first of all, in simple sentences, according to the following criterion functions: descriptions (descriptive sentences), avoidance of uncertainty or reduction of its extent (questions), to order (instruction etc.), to promise (promises) and so forth. This is the ability to ask questions, proceeding from certain information. The culture of thinking here is manifested by the fact that questions never arise from scratch. Another issue to consider is whether we understand this or that information at this level.

So in unusual way, a certain level of culture allows for judging and forming the norms. Their authors confirm existence of certain ideals, a certain due. Normative statement postulates certain public values, which are offered, and sometimes are even imposed on another or even on one. The normative statement would rather pay attention to what should be or should not be; what someone should or should not do rather than to what occurs, occurred or will occur. The normative statement cannot be reduced to descriptive statement, and essential characteristics of descriptive statements are not applicable to it. The normative statement is another manifestation of culture of thinking. Unlike the descriptive statement, which admits true or false traditional logic, the normative statement is neither true nor false. Thus, it has no logical value. Normative statement is not intended to reflect the world, but to change it or save a certain provision. Therefore, normative statements can be characterized as reasonable, unreasonable, useful, useless, connected with this or that subject, sphere etc.

The person not only describes the world or normalizes it, but the culture of thinking of an individual can also be expressed, by undertaking the obligation to make something. In other words, the person sometimes promises something, in special cases even swears. The culture of promise provides that a condition of sense of the statement of the promise is absence of an object that is being promised now.

An opposite expression of descriptive statements can be found in estimated statements or estimates. The compliance of certain processes with our system of values is shown in

an assessment. Both statements (descriptive and estimated) link the compliance relations. However, in estimates we do not describe anything as true or false.

Not all specified types of statements (descriptive statements, questions, norms, promises, estimates) are analysed in literature, but, it appears that, it is enough to describe culture of thinking and its levels.

The assessment phenomenon explains why the subject level of thinking can also be called the level of thinking skill. We often can estimate a case, process, without realizing the values on the grounds of which something is considered as good or bad, useful or insalubrious etc. For example, the international experts can estimate programs and the specializations offered in college. This assessment can confirm the provided right of the college to continuous accreditation. Another example – the assessment of knowledge in points (1–10).

The level of thinking skills is a level of social self-organizing. At this level, the ability of thinking is realized when a person does not think about thinking from the point of view of neurophysiology, psychology, anthropology, epistemology, logic, and semiotics. However, some sciences investigate thinking anyway. The person may not know the names of these areas of study, even some researches and development. The level of thinking skills is formed by training their native and foreign languages. In other aspect, this level is formed in a family, on the street, in a yard, in everyday life, at work. Based on such skills, people make judgment about things coherently; it confirms that we, in the course of socialization, have known accumulation of judgment ability of culture of thinking.

One of manifestations of the level of thinking skills is that, as a rule, we have no knowledge of thinking – we are only able to think (to describe, ask, order, promise, estimate, etc.), but we do not know, how we do it, and – why we do it. Under such conditions, the culture can accept individual sizes. The person may not attend the higher education institutions, but can argue about things: not to ask about obvious, not to stop on superficial, to estimate by valid criteria, etc. The developed thinking skills are an important component of natural intelligence, able to exist irrespective of attending or not attending schools.

Regularities of thinking, regardless of research aspects, are often referred to as logical, as if thinking was only in the scope of logic.

In this (broad) sense of “logic”, the skills level of thinking is the logical level of thinking and the culture of thinking is logic culture. However, the word ‘logic’ can also be used in narrow sense. In that case, logic skills are shown in unusual way:

- at the expense of use of concrete and adequate logical connectives (for example, use of an implication instead of conjunction, use of equivalence instead of implication);

- at the expense of isolation of one logical operator from the other (for example, it is not necessary to confuse internal denial with external), one logical operation with similar operations, e.g. without mixing logical generalization with analytical or logical division);
- at the expense of not mixing some terms with the other terms (for example, contrary with contradictory or full – with empty);
- at the expense of isolation of types of relations of terms, not mixing, for example, incompatible terms with compatible, e.g. being in the crossing relations through well-developed sense of the so-called deductive stemming, first of all, in simple statements, by finding fast and effective arguments in the course of reasoning, anticipating the errors of logic in speech of the opponent, etc. In general, logical skills are shown as a type of sensation of the logical and the so-called space of existence of logical (logical space). Logical appears in the forefront of discourses where it is traditionally connected with the word ‘conclusion’². Not for nothing the logic, in a sense, is called the doctrine about conclusions³. Logic appears in the form of special relations. Within logical skills we often feel these relations unconsciously.

By expressing things (judging them, asking, ordering, expressing a request, estimating, etc.), we demonstrate certain culture of thinking and, in certain respect, logical culture. In the course of socialization, we accumulate the most intellectually created part in the history of society. In manifestations of thinking, we confirm this accumulation. But do we need to express skills of thinking and (in narrow sense) logical skills and logical culture of an individual? The analogy with driving a car will provide a clearer answer.

A skilled driver can easily communicate with a companion, being at a car wheel. We explain it very well, by referring to certain skills which “lay too long” in the head of the driver. These skills also form a cultural basis for driving skills. However, there are skilled drivers who have only this basis. Under certain conditions, it is difficult for them to repeat school examinations though their experience of driving is not lost. These drivers have low driving culture.

In communication we can also speak about the second level of logical culture. It is associated with reflection how we think, how we prove our logical intuition, whether we feel it in some place (as shown by some signs). We should refer to the theory.

If information is used in logical skills, it is possible to figuratively characterize it as spontaneous, intuitive logic, and the reflection of the corresponding knowledge – as reflective logic.

² Logic is also demonstrated through various chains of conclusions, argument systems (proofs, denials).

³ Logic can be characterized as a science about a word „therefore” (Strobach, 2005, river 12).

The reflective logic accumulates many theoretical provisions called verbal thinking and language form, and teaches us to see some central points in different discourses. One of these knots is logical laws – universal, general, invariant communications between terms, statements or their structural components (in natural languages) or their analogue formal systems (non-specified terms, formulas, their components).

It is demonstrated in connection with a formula being an analogue of sentences in natural languages and thus, representing itself as a special type of discourse. It is a specific sign of certain formalized language (variable) or their set, which can be replaced with some statements of natural language (their substantial elements) or even some other signs of formalized languages, their sets (including formulas). Not every sign of formalized language is a formula, and not every formula realizes in itself the logical law.

One of the ways how the logical law manifests itself in natural language and thus the way how the logical reveals itself is tautology – by formalizing each statement an identically true formula is obtained.

The logic is shown through the law of logic. The logic is present where there is the law of logic.

The reflective logic not only passively “teaches” to see certain central points (laws of logic) in different discourses, but also influences logical skills, helps to supervise them and support at a certain level. It is illustrated by the question of whether it is possible to trust the following statement- if the number of cats increases in some place, the clover crop increases. At first sight "pasting" both simple statements seems artificial and hardly true. It is possible to assign the check of validity of such statement to the following discourse: if in any place the number of cats increases, the number of field mice decreases. Decrease in the number of field mice results in increase in the number of land bees. If the number of land bees increases, the pollination conditions for clover improve. If the pollination conditions for clover improve, the clover crop increases. Therefore, if in some place the number of cats increases, the clover crop increases. Thus the validity of the above statement is not obvious, and it is necessary to address theoretical logic for clarity.

Let's check whether it is possible to see action of the law of logic, and if such action in such discourse is revealed or is not revealed. We will draw the corresponding conclusions.

Formalizing this discourse, we will receive the following sequence of symbols:

$$\frac{(p \rightarrow q) \wedge (q \rightarrow r) \wedge (r \rightarrow s) \wedge (s \rightarrow t) \wedge (t \rightarrow u)}{p \rightarrow u}$$

It is clear that we can draw a certain conclusion. If we transform this conclusion into “big” implication $((p \rightarrow q) \wedge (q \rightarrow r) \wedge (r \rightarrow s) \wedge (s \rightarrow t) \wedge (t \rightarrow u)) \rightarrow (p \rightarrow u)$ and on the grounds of it, construct the validity table, we would see that in a column of the last

operation all values of the validity are true. Therefore, the conclusion of this structure is correct. It means that it is possible to add our logical intuition to theoretical means and to prove the initial compound statement *if in any place the number of cats increases, the clover crop increases*. As to the validity, it is possible to trust (in terminology of logic it is a part of deductive conclusion).

Though the logical realizes itself through the law (though specific), it is also in discourses where it is impossible to find the law "traces". It takes place in discourses, which are traditionally called as inductive conclusions, and therein the conclusion arises from premises without logical necessity. In traditional formal logic the inductive conclusion, as a rule, is understood as conclusion where thoughts move from an individual or private to general. Traditionally, inductive conclusion (an inductive conclusion in narrow sense) is also inductive in the first (modern or wide) sense. In conclusions of incomplete deduction, the information that is larger than the information affirmed in premises is asserted. Therefore, the veracity of such conclusions is probable. We often say that such conclusions are problematic.

In inductive conclusions the conclusion follows from parcels without logical necessity. At the same time, discourses can be connected with idea of correctness. Otherwise correctness would only be characteristic of deductive conclusions. The possibility of being correct is based on analogue of a deductive effluence – on an inductive effluence. If there is inductive effluence in (inductive) discourse, such discourse is correct. Here the inductive effluence (B from A) is “such relation between statement A_0 and B_0 if only if B_0 deductively does not arise from A_0 , and probability of B_0 provided that A_0 is true, it is more than probabilities of B_0 in itself” (Voyshvillo & Degtyarov, 1998: 387).

The correct types of conclusions (the correct deductive conclusions and inductive conclusions) allow for seeing a uniting basis of two large groups of logic (deductive and inductive). This uniting idea, apparently, is the idea of correctness.

The idea of correctness can also be used as the means of influence and control of logical skills. The idea of correctness helps to “straighten” certain generalization chain of substantial terms, for example. Many people intuitively think that the following logical generalization of the place name *Riga* is correct: $Riga \rightarrow Latvia \rightarrow Europe \rightarrow Eurasia \rightarrow world$. However, it is enough to address certain methodological installations of the logical theory in order to convince that all links of a chain (except the first) are wrong.

In general, these installations can be described as follows: whether all objects of n -that link of a generalization chain are part of objects of a link $(n+1)$? The generalization chain is correct with respect to the link to which we provided a positive answer. In our example, it is possible to see that abnormality begins already in the second link.

Reflective logic allows for making an active contribution to individual logical culture directly through a number of theoretical and methodological norms (rules) and knowledge. It is some kind of intermediary between logical experience and the theory of

logic. They can function as intermediaries because they deal with partially empirical objects (terms, statements and various operators: functors, predicates, yunctors, subnectors). Although the rules are not direct elements of a theory, we rely on such elements and their sets.

In logical culture of an individual, it is possible to accurately allocate the following levels:

- 1) logical culture, which manifests through logical skills;
- 2) logical rules (methodological level) (reflective logic of I);
- 3) theoretical level of logical knowledge of the individual (reflective logic of II).

Higher level of logical skills and wider knowledge of human logic are equivalent to higher logical culture of a human. At the same time, layers, levels of logical culture definitely cooperate with each other. Development of logic promotes improvement of logical skills while the developed logical skills are a factor, promoting logical development. One of the purposes of development of a course of logic is to increase the level of logical skills and the level of logical culture.

Philosophical Culture

Logical terms – dependent, not satiated and functional signs of language whose task is to cement other signs of language, resist to language signs, which are fixed by rather stable objective, by a situation (statements) or elements (substantial terms) of such situations. Therefore, we cannot say that logical terms, functional signs of language have no contents at all (although they are described as not substantial). One of the signs has purely logic contents, for example, yunctors. As regards the others – only purely logic contents come to the forefront – for example, at predicates, functors, subnectors. As regards predicates, functors, subnectors, they are nominated to the foreground in the subject analysis and they are a part of the object contents realized in statements and substantial terms.

The substantive as objectivity is the area where the everyday, scientific and philosophical consciousness is active.

Philosophical consciousness as a representative of philosophy is a focus of attention of the author of the present article.

To speak about philosophical culture of thinking, it is necessary to plan some central points of understanding in philosophy.

In understanding of philosophy, a certain place is occupied by ideas of communication of philosophy with a certain subject sphere. Aristotle considers that the objects of research in philosophy are the prime causes and real essence, God as the first mover. The Stoics thought that the objects of philosophy are the objects studied by logic, physics and ethics. According to L. Feuerbach, anthropology – a doctrine about a person, can be the only (true) philosophy. G. Rickert considered philosophy as the doctrine about values.

A certain space from subject communication in understanding of philosophy is the definition of philosophy as general regularities of the nature, society and thinking. Close to the indication of the subject sphere – regularities of the nature, society and thinking – there is an instruction on a community of regularity, having realized an exit from the subject sphere in the functional.

Transition to the functional sphere appears in such definition of philosophy as the doctrine about the relations between the person and the world. If it is a question of the world as a whole, and not of its specific fragment or several fragments, the singularity moment appears. It is also the functionality sphere.

A certain space from subject communication in understanding of philosophy is L. Vitgenstein's approach demonstrated by his words from *Logical Philosophical Treatise*, “The philosophy is not a doctrine, but an action. A philosophical work consists essentially of the explanation” (Vitgenšteins, 2006: 53).

The instruction on denial of the doctrine, in effect, means leaving from the subject sphere. In other words, L. Vitgenstein agrees with the authors who argue that specifics of philosophy should be searched out of searches for features of the subject sphere.

It is also interesting to view philosophy as a doctrine with a limited number of terms as products of development of the world in the centre. According to Bruno, the philosophy is a vision of the world through the final products of various movements and the directions. This is the vision of the world through maxima and minima.

Categories as Structural Elements of Philosophical Theories

A premise for analysis of philosophical culture of an individual is the assumption that structural elements of philosophical theories are categories. Their variety underlies the above-mentioned culture. Philosophy has its specifics; the nature of categories is defined to a great extent.

By analyzing philosophy and system of categories of philosopher Aristotle, it is possible to distinguish 10 categories. We can say that the Aristotle's system of categories will be coordinated with a traditional approach. According to this approach, the categories are the broadest in terms of volume (result of generalization). The picture is rather rich and diverse. And still, there is a question – why, for example, the term ‘matter’ is not attached to this list. It confirmed itself in the history of philosophy together with the term ‘workmate’. Aristotle gave a lot of attention to this pair of terms.

A list of many other terms makes us think that not all categories are general terms. For example, ‘world’, ‘universe’, ‘reality’, ‘existence’, etc. are terms for which generalizations are not included in the picture under consideration. They can be considered as counter examples for the corresponding understanding of categories. These terms are individual (singular).

From here, it is possible to make a number of conclusions. Categories are not only the result of generalization – terms, which are most extensive in volume, but also a certain quantity of singular terms. Therefore, it is possible to say that philosophy cannot be considered only as generalization.

One of decisions eliminating the problem of the nature and subject of philosophy and plans outlines a question of culture of philosophical thinking. There could be other functional characteristics of categories. Philosophical literature (e.g. Levin, 2007: 8–10) provides an explanation of the nature of categories. It is useful to consider categories as limiting cases of the process of thinking (limiting products). It is necessary to distinguish at least three processes of thinking and its products at which there are the following categories – generalization, synthesis and analysis. Researches show that idealization causes emergence of categories.

The categories ‘world’, ‘universe’, ‘reality’, ‘existence’, ‘matter’ (non-Aristotle's sense – as objective reality), ‘much’, ‘real’, ‘uniform’, etc. arise from synthesis. In the opposite direction, it is possible to receive the categories ‘element’, ‘structure’, ‘relation’, ‘matter’ (Aristotle's sense), ‘form’, ‘substance’, ‘accident’. The examples of idealization are the terms ‘absolutely black body’, ‘absolutely firm body’, ‘ideal gas’, ‘a material point’, ‘incompressible liquid’, ‘point’, etc. act. These terms are empty terms. Their objects do not exist out of consciousness.

Such network of philosophical categories grows out of long-term development of philosophy and expression of high philosophical culture. The person who forms the philosophy by means of such categories should be described as an intellectual of high philosophical culture. Another important factor is that the above-mentioned network of categories is not homogeneous. It consists of various subsystems, gets on with non-categorial doubles. These and some other moments can be specified.

The understanding of categories as limiting cases (limiting products) suggests that categories are functions of intellectual development of the person and a certain step of knowledge with time factor as one of arguments. The last circumstance illustrates well enough why does the categorial structure of philosophy change.

In this regard, it is necessary to remember that Plato's system of categories consists of five categories (existence, identity, distinction, movement, rest). Aristotle had at least ten categories. I.Kant has four groups of categories: quantities, qualities, relations, modalities. This only confirms a floating categorial vision of the world that differs at different categories.

A certain number of philosophical categories get on with certain categorial and non-categorial doubles. According to an example from textbooks of the categorial relation, it is possible to provide the term ‘matter’. This term for Aristotle meant pure possibility, which contacted with a pure form, providing reality with certain things.

At the same time, the history of philosophy shows that it is possible to understand 'matter' as "the objective reality given to us in our feelings that our feelings copy, photograph, reflect, but it exists irrespective of them." If Aristotle's 'matter' is the result of analysis, the second term used – the result of generalization. In contrast to Aristotle's 'matter', consciousness acts as the form of a matter as an objective reality. The categories whose existence is excluded in the framework of one developed philosophical consciousness are competitors.

Another picture arises in connection with the term 'reality' (existence). This term is widely used not only in categorial, but also other sense. These values appear in the following oppositions: reality – illusion; the past – reality – the future; reality – ideality; the real – nominal. In the first case real is the validity that occurs actually or exists. In the second case – now existing contrary to the past, possible in the future. In the third case, real can be objectively real contrary to the ideal as subjectively real or real in the form of a set of objects contrary to objects of the theory as ideal (idealization products). In the fourth pair, real in one context can act as corresponding to essence (real or nominal freedom), in other – for what there are preconditions (realistic plan) or what is connected with specific existence (the realist argues that there are general objects).

Assistance of categories of a philosophical grid with their categorial doubles means that the high philosophical culture of thinking includes not only certain categories as limiting products of development of the world, but also metaknowledge of these categories, their use, adequacy of this use, and also metaknowledge of categorial doubles – their difference, conditions, the purposes of application of these categories.

The developed philosophical consciousness includes also metaknowledge of terms. Usually, existence of philosophical categories (in the status of subject language) makes the theory philosophical. A certain network of categories forms philosophical "form" of the theory, from which "substratum" of the theory is called a philosophical theory.

The philosophical theory, of course, cannot consist of philosophical categories – it is diluted by non- categorial terms. These terms, being different, even "probe" the world at their root levels in their terminological specificity. In some fragments of works we even cannot find anything philosophical. For example, in Section 11 of L.Vitgenstein's philosophical researches, almost all terms "rotate" round a tool box. Other terms, if any to be mentioned, are 'function' and 'philosophy'. Still many philosophical categories have not been mentioned. May be it is due to the fact that the work is at the beginning. But, for example, in Section 610 the author suggests describing a coffee maker. The rest of this section is about this description.

As soon as the description complies with the fact that the existence of philosophical categories makes the theory philosophical, it is possible to draw an analogy with the aforementioned logical space on the basis of an explanation.

Probably on how the logical, being carried out through the special law or even through a network of laws, requires a certain space of a discourse. It can be more or less, but always requires a certain size. The philosophical space is a discourse that consists of the minimum borders, within the framework of which, the existing text can be characterized as philosophical. Similarly, the logical space of the philosophical text can also be wider but not less than a philosophical space. The high philosophical culture also means that the research that has been carried out by a specific author and applies for the status 'philosophical' is not smaller than a philosophical space.

An article or a book ranking in the category 'philosophical' should be identical or wider than philosophical space of a corresponding subject. The above-mentioned fragments from the book by L. Wittgenstein are too narrow to describe them as philosophical. The author of the present article, at least involuntarily, should start with a principle of a primacy of the whole over parts: the characteristic 'philosophical' cannot be established on the basis of the analysis of a narrow part. Only the correlation of parts can be the basis of the above-mentioned characteristic.

The philosophical text can also contain the arguments, and then the philosophical culture substantially depends on logical culture of the philosopher. Let's remember G. Berkeley's attacks on the understanding of 'matter' as one of pillars of materialism with the objective to break the whole building of materialism.

The philosophical theory cannot consist of only philosophical categories because the philosophical theory is not a set of philosophical schemes. The network of philosophical categories could form it. In a philosophical discourse, philosophical categories should seem as the results of a certain research, the analysis, as a final part. In spite of the fact that the main emphasis in the research is on 'ending', research can be considered as philosophical. For example, many questioned a philosophical character of the term 'consciousness'; however, consciousness can be characterized as philosophical if a problem of consciousness is developed within the category "form". If consciousness is not a matter (a part, a kind – a vulgar materialism), it should represent the form – its part or a kind. And Aristotle argued that the soul is a form of a live organism, providing food, reproduction (soul of plants), its food, reproduction, moving and perception of forms of things without a matter (soul of animal), its food, reproduction, moving and perception of forms of things without a matter and knowledge of an internal form (soul of the person as reasonable being). In Aristotle's reasoning, the term of a shower is not a limiting case of thinking and informative process (a limiting product). This term could be a limiting case for the term 'consciousness'. Within such analysis, it is possible to tell that the term 'consciousness' is not a philosophical category, but the planned research, however, belongs to the sphere of philosophy.

Conclusions

- 1) At subject level, the culture of thinking is expressed through skills.
- 2) Logic skills are shown, feeling logic and the so-called logic space.
- 3) The reflective logic accumulates in itself much theoretical knowledge in a form of verbal thinking and language, and gives an active contribution to culture of an individual by means of a number of rules of logic.
- 4) Philosophy is the doctrine with limiting terms in the centre.
- 5) The developed philosophical consciousness includes metaknowledge of categorial and non- categorial doubles of philosophical terms.
- 6) The philosophical text cannot be less than philosophical space.

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INNOVATION IN HIGHER EDUCATION IN POLAND AND EXPECTATIONS OF YOUNG POLES ENTERING THE LABOUR MARKET: FACTS AND CHALLENGES FOR THE FUTURE

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Abstract

The paper consists of two parts. In the first one titled “Varied Range of Courses and Support for Graduates in Entering the Labour Market as an Innovation in Higher Education in Poland” the authors present the amendments to the Law on Higher Education (Poland), which tends to match fields of study to the current needs of young people and the needs of the labour market. Emphasis on creating new directions – particularly in technical fields – to facilitate entry into the labour market, inhibit the scale of unemployment, as well as to introduce innovative solutions in learning – such as: conducting intercollegiate studies, dual studies conducted with employers. The purpose of these actions is to improve the quality of education at the tertiary level.

In the second part of this article entitled “Adaptation of University Education Offer in Poland to the Requirements of the Labour Market” (based on online surveys conducted among students) the authors present the results of research on what young people expect from the higher education system in Poland. The key objective was to find answers to the following questions:

- *Whether a university or college offer is satisfactory for the youth?*
- *What they expect from the training that is tailored to requirements of the market (employers)?*
- *What are their proposals for changing training program at universities?*
- *Are they worried about the future career, and if so, what are the reasons?*

The answers to these and other questions shaded some light on the state of the higher education system in Poland and the situation of young people in the labour market.

Keywords: *Poland, innovation in higher education, state policy, young people, students, graduates, adaptation of university education offer, requirements of the labour market, research results*

Introduction

The scientific article was divided into two parts. The title of the first one – written by Jadwiga Daszykowska (educationist) – “Varied Range of Courses and Support for Graduates in Entering the Labour Market as an Innovation in Higher Education in Poland”, and the second one by Mirosław Rewera (the author is sociologist) was entitled “Adaptation of University Education offer in Poland to the Requirements of the Labour Market” (based on online surveys conducted among students).

The authors tried to undertake one (at least similar) problem from three perspectives: theoretical, practical and empirical. Jadwiga Daszykowska showed involvement of state in many activities, which were undertaken by this main institution, and Mirosław Rewera considered this issue based upon his own research results, referring to opinions of the Polish students who took part in online-research conducted in 2015.

Varied Range of Courses and Support for Graduates in Entering the Labour Market as an Innovation in Higher Education in Poland

The amendments to the Law on Higher Education (Poland) tend to match the fields of study with the current needs of young people and the needs of the labour market. Emphasis on creating new directions – particularly in technical fields – to facilitate entry in the labour market, inhibit the scale of unemployment and introduce innovative solutions in learning – such as: conducting intercollegiate studies, dual studies conducted with employers. The purpose of these activities is to improve the quality of education at the tertiary level.

Innovation as the Key to Success of Poland

Innovation is seen as the key to success and a priceless part of building the competitiveness of the Polish economy. It is also supposed to open the door to attractive offers for young people in the labour market. It is assumed that innovation largely depends on the shape of higher education and its relationship with the economy. The debate on the above issue and research are mainly led by: the Ministry of Science and Higher Education, the National Centre for Science and the National Centre for Research and Development Agency for Enterprise Development, the Polish Academy of Sciences, as well as young researchers, representatives of universities, the business sector: innovative companies, scientific units research, industrial and technological parks, technical and technological organizations, local government units (*Szkolnictwo wyższe dla innowacyjnej gospodarki*, 2011: 6).

Selected Systemic Challenges in the Field of Innovation in Higher Education

The originators of the project changes in higher education pose the following systemic challenges, taking into account the assumption of making higher education in Poland more attractive and modern, as well as creating better conditions for young people to enter the labour market:

- 1) The development of universities and vocational schools. Universities must maintain good internal autonomy while pursuing their duties towards society and the state. They must operate in the external environment, alone to raise funds for research, teaching, and to co-create science parks, business incubators.
- 2) Competition for funding the education (the National Centre for Science and the National Centre for Research and Development). Funding for research cannot be perceived as the government expense, but as an investment in the economy, the development of civil society and human capital.
- 3) Financing of teaching in higher education. The solution to the problem of funding sources may be to track graduates.
- 4) The internationalization of universities and national mobility. This requirement is to be a criterion for assessment of college work. The internationalization of education is an important component of innovation, because, according to the statistics, in 2011, only 0.6 % of foreign students studied in Poland, while in Germany – 15–20 %. The brightest graduates should be employed in universities.
- 5) Development of academic staff of universities. Obtaining degrees cannot be an end in itself, but a natural step towards scientific progress.
- 6) Transparency in hiring. Allowing for objective, substantive aspects in hiring staff of colleges.
- 7) Competitive funding of universities. Public schools are financed by the state, private ones from tuition fees. The greater the number of students, the better funding. However, it needs to be changed, because it can reduce the level of education.
- 8) Finding the third source of funding. Realization of this requirement requires establishing the cooperation between universities and companies, enterprises, creating business incubators, science parks (Żylicz, 2011: 9–11)⁴.

Higher education is still an asset on the job market⁵. People aged 25–29 with a college degree work much more and are less likely to be unemployed compared with those who

⁴ Cf. Najwyższa Izba Kontroli, *Wdrażanie Innowacji przez szkoły wyższe i parki technologiczne*. Available from: <https://www.nik.gov.pl/plik/id,5291,vp,6860.pdf> (20 marca 2015).

⁵ See: Ministerstwo Nauki i Szkolnictwa Wyższego, *Szkolnictwo wyższe w Polsce 2013*. Available from: http://www.nauka.gov.pl/g2/oryginal/2013_07/6bf8b0381a4126920fc2afb20dfebb9d.pdf (21 marca 2015).

have secondary education. According to the Ministry of Science and Higher Education, the situation of Polish graduates does not differ from the European average. The unemployment rate for college graduates aged 25–29 was 10.4% – almost equal to the average of all EU countries of 10.2% (*Fotografia polskiego szkolnictwa wyższego 2013, 2015*).

Innovative Solutions to Facilitate Taking up Work by Graduates

The Ministry of Science and Higher Education has taken a number of actions to facilitate finding a job for young Polish people. These activities by the Ministry include, inter alia:

- 1) Interdisciplinary education at the Bachelor's degree (BA). The introduction of inter-study and inter-study is to prevent the feeding education, which is based on the knowledge that quickly goes out; it is to lead to learning while acquiring thinking skills and learning information (Żylicz, 2011: 9).
- 2) Equal access to higher education for young people (regardless of the financial situation). It is possible to fulfil this task, if the school stimulates, supports and develops abilities of students at every level of education.
- 3) Deferred payment of tuition fees. A good solution is the introduction of deferred repayment of tuition loans – as in the Anglo-Saxon countries. This will allow for access to the education for young people, and from the point of view of the university, it will be an element of its funding. However, it is not only about getting a high rate of schooling, but also high quality of education.
- 4) Increase the mobility of students. It is about increasing the number of students participating in interuniversity projects, internships, national and international intercollegiate exchanges.
- 5) Education with general university and practical profile (in the latter, particular emphasis should be placed on internships and student internships to acquire professional experience).
- 6) Two types of graduate education: the creators of innovative knowledge economy are mainly graduates of the 3rd-degree (PhD), the so-called elite education, and creators of innovative economy (interdisciplinary graduate study, prepared not only professionally, but also in the context of general-education in the scope of mathematics, physics, and philosophy etc.) (Jóźwiak, 2011: 19).

Science and Higher Education in Poland as the Most Important "industry" in the 21st Century

What has been done? Here are some examples.

- 1) The structure of education has been changed, by developing technical courses (for this purpose, 26 billion zlotys were contracted: modern laboratories, improving the quality of teaching and work).

- 2) A Virtual Library of Science was launched that guarantees free access to the latest scientific studies around the world.
- 3) The universities in European research networks are included (that is, for example: The Knowledge and Innovation Community, led by the University of Science and Technology in Cracow).
- 4) There were introduced the transparent rules of evaluation and advancement of university employees.
- 5) There was introduced the requirement of obtaining financing science grants.
- 6) Increased ability to create training programs for representatives of the sector – especially in schools with occupation.
- 7) The amendment to the Law on Higher Education has opened the way for mature people to study – universities will be able to include in the curriculum their knowledge and skills acquired at work, or training courses.
- 8) Recordings of the amendment strengthened the chances of students and graduates in the labour market. College profile provides practical 3-month mandatory practice.
- 9) The new rules will also fight against plagiarism of theses and dissertations, and impose more effective disciplinary action upon teachers infringing (*Nowelizacje ustaw: wsparcie dla innowacji i lepsze powiązanie studiów z rynkiem pracy*, 2013).

Much has been done to introduce innovations in higher education in Poland and support graduates in the labour market, but the process of change requires time⁶, financial resources, and mental changes.

Adaptation of University Education offer in Poland to the Requirements of the Labour Market (based on online surveys conducted among students)

Educational aspirations at the level of higher education strongly increased at the beginning of the 21st century. This led to extended period of education and reduced the number of population with lower level of education entering the labour market (job seekers) (*Dostosowanie oferty szkolnictwa zawodowego do wymogów dolnośląskiego rynku pracy*, 2009: 97). Hence, it is important to ask whether the university offer in Poland is sufficiently adapted to the requirements of the labour market. The answer to this question seems to be an important indicator of the situation of graduates in the

⁶ See: J. Rok, *Przegląd doświadczeń australijskich uczelni w modernizacji kształcenia i realizacji badań naukowych sprzyjających poprawie pozycji tych uczelni w świecie*, (*Wskazówki dla Polski*), Ekspertyza badawcza dla Konferencji Rektorów Akademickich Szkół Polskich, czerwiec 2011, Warszawa, s. 39-43. Available from: http://www.euroreg.uw.edu.pl/dane/web_euroreg_publications_files/1515/przegląd_doswiadczen_australijskich_uczelni_jakub_rok.pdf (20 marca 2015).

labour market. This problem can be considered from two perspectives: the policy of the state and activity of many institutions, as well as from the perspective of graduates who are looking for work, take a job after graduation, or remain unemployed. Herein the author focuses on the second perspective, that is – opinions of young people starting their professional career.

The paper presents results of the research on students' assessment of the degree of compliance of higher education offer to requirements of the labour market. The survey was conducted in January and February 2015, on the Internet, (online) with a sample of 229 students who completed a questionnaire sent to them by email.

Research Methodology

The students from a number of universities located in different cities were tested:

- Off-Campus Faculty of Law and Social Sciences in Stalowa Wola – The John Paul II Catholic University of Lublin (N=148),
- University of Rzeszow (N=34),
- Jagiellonian University in Krakow (N=17),
- Academy of Humanities and Economics in Lodz. Branch in Jaslo (N=15),
- Medical University in Lodz (N=11),
- School of Economics in Radom (N=4).

In general, the highest percentage of respondents (64.6%) came from Stalowa Wola, and the smallest (less than 2%) – from the School of Economics in Radom. They studied different fields: education, social work, physiotherapy, sociology, environmental engineering and materials, medicine, and emergency medical services, economics, law and psychology. The largest number of respondents – students of the field of education (24.9%), social work (16.6%), physical therapy (14.8%), sociology (11.4%) and environmental engineering and materials (10%), which accounted for more than three-quarters of the respondents. Representatives of other subjects in the sample under examination constituted less than 10%.

They wanted to obtain answers to the following questions:

- Is a university's educational offer attractive to young people?
- Is the offer sufficiently adapted to the requirements of the market (employers)?
- Do young people expect from their university the level of education that is tailored to the requirements of the market (employers)?
- Does a university, where young people are studying, give them a good chance to get a good job after graduation?
- What are their proposals for changes in curriculum offer to better adapt to requirements of the university in the labour market (employers)?
- What should be done to strengthen the position of graduates in the labour market?

- To what extent do the students feel prepared to the requirements of the labour market?
- What competences, in their opinion, may be the most useful in their future careers?
- To what extent they feel prepared to meet requirements of the labour market?
- Are they worried about their future career, i.e., do they allow for the fact that their future profession may not be in conformity with acquired education?
- What are the reasons for their concerns about the professional future?
- Do they feel threatened by unemployment?
- What, in the opinion of young people, does determine that after graduating from high school, one can find a job?
- Does, in their opinion, studying make sense, if you cannot eliminate the risk of unemployment, even among university graduates?

Conclusions

The answers, which were obtained during the study, made it possible to draw conclusions, throwing some light on the adaptation of the Polish higher education system to the labour market.

There are the most important conclusions from the study:

- 1) In general, the respondents evaluated the universities' educational offer as attractive, but such offer is not fully adapted to the requirements of the labour market (employers)⁷. They often expected from the university education to be suited to the requirements of the labour market (employers).
- 2) According to most students, a proposal that is worth considering, to better match supply to the requirements of the university curriculum in the labour market, is greater cooperation between the university and the institutional environment – all kinds of charity institutions, as well as cooperation between the university and the business environment (i.e. different companies)⁸.
- 3) It is also important to enrich the universities' educational offer of practical subjects and remove from the curriculum theoretical subjects⁹; the cooperation between universities in the country as well as Polish and foreign universities is of minor importance.

⁷ Telephone survey conducted in 2013 by the “Green Line” consultants showed that according to 32% of respondents the difficult situation of graduates results from the fact that training courses do not comply with the situation on the labor market (Niemyjska& Krawczyk, 2013: 5).

⁸ Similar conclusions can be derived from a report entitled “The Needs of the Local Labor Market and the Vocational Education Offer in the Region. The Final Report” (Zalewa, 2009: 34).

⁹ The author of the report entitled “The Needs of the Local Labor Market and the Offer of Vocational Education in the Region”. The final report states that a greater number of practical subjects should be included in school curriculum (Zalewa, 2009: 34).

- 4) In order to strengthen the position of graduates in the labour market, educational programs should be adapted to the requirements of the labour market and more emphasis should be put on practical issues in the curriculum¹⁰.
- 5) In some cases, the students suggested amending the law in such a direction as to protect graduates against unemployment and said that businesses and institutions should be provided with better conditions for the employment of graduates.
- 6) Most students feel prepared for the labour market in terms of theoretical skills, and to a lesser extent – in terms of practical skills gained during the apprenticeship.
- 7) According to students, the most useful competence for the future career was the ability to work in a group. Other important competences included: creativity / inventiveness, freedom in interpersonal communication, flexibility in thinking and action, ease of making new friends, adaptation to changing operating conditions, and the ability to negotiate and mediate.
- 8) Most respondents rated their preparedness for the labour market as mediocre.
- 9) Studies have highlighted the disturbing fact that the vast majority of students are concerned about their future careers – they allow for the fact that their future profession may not be in conformity with the qualifications acquired at the university.
- 10) Most of the students considered the lack of jobs for graduates as the main cause of their fear about the future. They were also worried about large scale unemployment in the Polish society, and felt threatened by unemployment¹¹. As Danuta Pirog notes, nowadays having a university diploma is not sufficient to get a good job after graduation; there is not also the effective protection against the problem of unemployment (Pirog, 2013: 310). This change seems to intensify the fear of unemployment, especially among young people.
- 11) In case of problem to find a suitable job after completing their studies, most of them would leave abroad¹² or take a job that differs from their profession¹³.

¹⁰ What is interesting in the light of results of Central Opinion Research Center is that 65% of students believe that their teachers (especially teachers of the key professional subject) are emotionally involved in the learning process (Kalka, Feliksiak, 2014: 32).

¹¹ The biggest threat of unemployment expressed by young Poles was in the early nineties of XX century. Within a decade, they gradually became less and less frequent, but in 2003, the perception of the unemployment risk increased (Boguszewski, Kowalczyk, 2014: 21–24).

¹² The research results – on the other hand – may be perceived as a positive phenomenon when you take into account the opening of Poland to the world and foreign languages learning – which is essential skill today when our professional situation is so uncertain and variable (Zalewa, 2009: 34).

¹³ According to the representative results of the Central Opinion Research Center, there is a popular belief among young people in Poland (expressed by 33% young Poles in 2013) that, in case of problem to find a suitable job after graduation, they can go abroad and thus resolve the unemployment problem on the Polish market (Boguszewski, Kowalczyk, 2014: 24–26).

- 12) the most disturbing fact is that the vast majority of students felt that finding a job after graduation depends on having connections and “pulling strings”¹⁴.
- 13) Although the majority of young people feels threatened by unemployment and is aware that after completion of their studies they may have trouble finding a job, they mostly believe that the studies make sense and constitute a certain value in life – studies broaden the intellectual horizons, teach self-reliance, entrepreneurship¹⁵ and thinking.

The Main Reflections in the Light of the Research Results (topics for discussion)

Some conclusions seem to be very important in the light of all aforementioned research results, so let me draw attention to the following:

Students have expectations for studying more practical subjects and less the humanities. Most of them do not understand the idea of studying at the university. This is a special place for learning where the main objective is to study more; on the one hand – it is important to acquire competences and qualifications in practical area, on the other hand – it is also necessary to have knowledge with respect to wider area of knowledge, which gives a greater vision of problem or problems.

The second conclusion was drawn based upon research results: the most disturbing fact is that the vast majority of students feel uncertain about their employment after the graduation. They are prepared to do jobs, which are not directly connected with competencies acquired at the university.

A large number of respondents think that, in order to be better prepared for professional role, one should acquire skills at the university and increase professional potential on the labour market. Therefore – as Danuty Pirog states – it is very important for many universities to increase efforts for the highest quality of education focused on learning of graduates equipped with a wide range of competencies that will ensure success on the labour market (Pirog, 2013: 314).

¹⁴ This result was similar to that conducted by the Central Opinion Research Center in the period 2003-2013 (Boguszewski, Kowalczyk, 2014: 20). The research conducted among graduates of pedagogy and sociology in 2010 in Zielona Gora by Elizaba Kołodziejska showed that according to 30% of graduates, the recommendations of others were helpful for them in obtaining employment after graduation (Kołodziejska, 2010: 12).

¹⁵ In order to minimize problems associated with adapting to the requirements of the labor market, teachers teach entrepreneurship already at the level of junior school, learning of which continues at the level of secondary school. However, they provide theoretical rather than practical knowledge hence it does not bring the desired effect (*Poziom dostosowania kształcenia w ponadgimnazjalnych szkołach zawodowych do wymogów rynku pracy – wyniki porównawcze w aspekcie regionalnym*, 2007: 44).

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EMPLOYERS' REQUIREMENTS FOR ACCOUNTANTS AND MANAGERS REGARDING PROFESSIONAL COMPETENCE AND SKILLS: A STUDY EXAMPLE OF THE ALBERTA COLLEGE

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Abstract

The current article describes preliminary results of the survey conducted within the framework of Nordplus Horizontal Project “Skills on Demand: Meeting Labour Market Needs” that is currently being implemented by the Alberta College in cooperation with partners from Lithuania (University of Applied Sciences, Kaunas) and Estonia (Estonian Entrepreneurship University of Applied Sciences).

The aim of the present research is to analyse employers’ opinion about the professional competencies, skills and knowledge required for the accountants, business administration specialists and line managers, and to compare this opinion with the classification of occupations and other sources.

Methodology of this study includes the following methods: monographic analysis, analysis of documents, comparative and logical analysis, surveys (structured interviews and questionnaires) and a focus group discussion.

JEL code: I21: Analysis of Education

Keywords: labour market, skills, competencies, competitiveness, employer, employee

Introduction

The project “Skills on Demand: Meeting Labour Market Needs” is currently being implemented within the framework of the programme “Nordplus Horizontal 2014”. One of the project’s activities includes a survey that was carried out by the Alberta College in cooperation with partners from Lithuania (University of Applied Sciences, Kaunas) and Estonia (Estonian Entrepreneurship University of Applied Sciences).

The project has the following aim: to analyse the necessity and possibilities to improve personal and professional competencies required for accountants, business administration specialists and line managers.

Objectives are to:

- Define critical competencies required for the new hires.
- Find the most effective ways how educational institutions can support enterprises in promoting their competitiveness.

In order to support this project, students of the study programme “Business Administration” carried out a survey lead by lecturer A.Kalniņš. The survey was developed with a view to find out employer’s opinion about the professional competencies, skills and knowledge required for accountants, business administration specialists and line managers. Competencies and knowledge requirements were selected based on the ones described in the classification of occupations and other sources.

In today’s labour market, technical requirements such as professional experience and education are being supplemented or even replaced by the competencies. Knowing and measuring the outputs that workers must produce, and the circumstances surrounding their production, is the key to understanding organisational success. Workers achieve the desired performance by carrying out job tasks; however to do this, they need to demonstrate their skills, apply knowledge and use personal characteristics. These characteristics are competencies. Therefore, competencies are essential to accomplishing work of any kind. This leads to a simplistic reduction: no competencies, no outputs, and no organisation (Dubois, Rothwell, 2004: 21). The above-mentioned aspects highlight the relevance of the theme chosen by the authors.

The main **results** of the study:

- A list of professional and personal competencies critical for the new accountants, business administration specialists and managers set by the employers.
- Defined approaches and ways that help educational institutions to cooperate with the enterprises in order to promote business competitiveness.
- Defined scope of knowledge and skills that students should be taught and trained during their studies at the higher education institutions.

Methodology

Methodology of this study includes the following methods: monographic analysis, analysis of documents, comparative and logical analysis, surveys (structured interviews and questionnaires) and a focus group discussion.

Monographic analysis of scientific literature was used to create a theoretical basis for the whole study, including preparation for the focus group discussion and developing

questionnaires. The Latvian and foreign literature on general competencies, and especially on competences necessary for the labour market, was studied and analysed.

Analysis of documents includes professional standards, which are the main starting point for development of any new study programme and improvement of existing ones. The main requirements from the standards were discussed during focus group discussion in order to evaluate their relevance and appropriateness.

Comparative and logical analyses were used for data procession. The data, gathered from surveys and the focus group discussion, were compared with documents and scientific literature. The results of this comparison were analysed and used as a basis for the list of professional and personal competencies development, as well as for defining co-operational approaches, the scope of knowledge and skills.

Structured interviews and questionnaires were used as the main tools for data collection. It was a task of students involved in the project to select employers from different fields, representing different sectors, for the survey. 100 respondents from each country (Latvia, Lithuania and Estonia) were selected. Structured interviews were conducted during personal meeting with the respondents, as well as using communication technologies, such as Skype for video conferencing and mobile phones for voice calls. Questionnaires were distributed and filled out electronically. The survey was carried out and the data were processed by students. For data procession, a descriptive statistics was used.

The focus group discussion was organised prior to survey mentioned above. In the focus group, nine employers from the Latvian private and state organisations participated. The focus group was moderated by lecturer A. Kalniņš from the Alberta College. The participants of the focus group discussed and analysed the most necessary competences for new employees, trying to understand the main differences among sectors, fields and size of organisations. As a result, the list of the most important skills was created. The next discussion point was finding the ways how higher education institutions can improve competitiveness of enterprises, and also participants of the focus group tried to agree on the best way of sharing responsibility between employers and educational institutions in developing students' professional and personal skills.

Theoretical and Practical Aspects of Competencies and Skills

Competencies are one of the tools applied in the Human Resources Management. Competencies are used to characterise behaviour of an employee in different job situations. Knowledge and skills are the more obvious competencies employees use to achieve the expected outputs. Many competency definitions include such terms as knowledge, skills and behaviours. For example, in 1989 *McLagan* suggested that a competency is an area of knowledge or skill that is critical for producing key outputs. Expanding on that definition, *Spencer and Spencer* (1993) described a competency as

an underlying characteristic of an individual that is causally related to criterion-referenced effective and/or superior performance in a job or situation. An individual competency is a written description of measurable work habits and personal skills used to achieve a work objective (Green, 1999: 5). Knowledge is essentially the information we need in order to do the job. We need to know all the relevant information about any case or situation we are dealing with. We may need to know about legislative or accounting procedures or about details of legislation or regulations. Skills enable us to do the job: what we can do with people (interpersonal and communication skills) and what we can do with information (cognitive skills) (Centre for Management and Organisation Development, 4–5).

Competency management is a practice that has become more and more important in both private and public organisations, helping them to attract and develop talented employees, identify the right person for a job (Beeck & Hondeghem, 2010: 4). Competency management involves a new way of looking at careers. Traditional careers, especially in the public sector, are based on qualifications, exams and seniority, while the introduction of competencies puts an emphasis on the ‘assets’ people have for the organisation (Beeck & Hondeghem, 2010:4). Competency approach gives better opportunities for the new generation to enter the labour market and compete with the more experienced counterparts as the critical aspects to get the job, in this case, are skills, attitudes and behaviour.

Some of the most frequently given reasons for the introduction of competencies are to improve organisation’s performance, increase the ability to be competitive, reduce turnover, clarify managerial roles and specialist roles, analyse skills and be able to identify the current and projected deficiencies in skills, improve workforce flexibility and provide a basis for compensation and reward programs (Dubois & Rothwell, 2004: 36)

The professional requirements set by the Government of the Republic of Latvia are essential. These requirements to master profession are determined in the Cabinet Regulation No. 461 “Regulations Regarding the Classification of Occupations, Basic Tasks Corresponding to the Occupation, Basic Qualification Requirements and Procedures for the Use and Updating of the Classification of Occupations” (adopted on 18 May 2010) (hereinafter – the Regulation). Professional standards described by the Regulation include employment description of the profession, professional competencies, skills and knowledge required to perform the main work tasks. For example, professional standard for the human resources specialist, approved according to the Appendix No.2 of the Regulation, “Professional Standard of the Human Resources Specialist”, occupational code – 2423, defines the following professional competencies for this particular occupation “ability to consult employees on issues related with the human resources management”, but it is difficult to apply the aforementioned competence in case employee does not have such soft skills as

communication, networking, collaboration, problem solving, focus on result and persuasion. In order to perform the main work tasks, the human resources specialists have to be able to “make decisions within the framework of their competence”, “to know how to deal with psychologically complicated situations”, “to plan and organise their work”, “to be a team player”, “to solve the problem situations”, “to provide well-grounded arguments” and “to provide information in effective manner”. It is supported by the general knowledge necessary to carry out professional tasks, for instance, psychology, organisational psychology and management; while the applicable knowledge necessary to carry out professional tasks includes human resource management, business communication, etc. The study programme for the first level higher professional education “Organisation and Management of the Institutions” at the Alberta College was developed on the basis of the above mentioned professional standard, therefore it promoted the development of the required skills and competencies. Nevertheless possibilities to emphasise the development of the personal competencies should be considered when implementing the study programme.

In order to stimulate the success of the career of new professionals, special attention was given to the so-called soft competencies when analysing the requirements of different professional standards. For example, according to the Regulation, the Professional Standard of the Accountant (Level No. 4 of the professional qualification) sets up not only the following professional competencies to perform the work tasks – “ability to create correct, rational and progressive accounting system and prepare bookkeeping documentation”, “ability to calculate taxes and settle tax payments” – but also defines the necessity to have such skills as “to defend the financial interests of a company within the framework of bookkeeping and taxes”, “to take responsibility for the outcomes of his/her professional performance” etc. The listed abilities require development of several personal competencies such as self-development, problem solving, ability to work independently, persuasiveness, planning and organising etc. Professional Standard of the Accountant demands hereinafter mentioned skills that are absolutely necessary to perform work tasks: to solve problems related with the area of bookkeeping and tax, to plan and organise the work according to the job description, to organise the performance of duties of subordinates, to keep up with the deadlines etc. Consequently, it is crucial to assess both – employers’ requirements and compliance of the professional standards thereof as well as competencies, knowledge and skills of the new specialists.

Professional Standard of the Business Administration Specialist emphasises the necessity to “provide consultations related to the organisation of economic activity, as well as effectiveness of the business; to participate in the planning of the resources, supplies and sales”.

The Professional Standard of a Manager and Deputy Manager requires professional competencies and knowledge that are impossible to acquire without developing personal

competencies and skills. Some of the professional skills required are: “capacity to develop the strategy, mission and the aims of the enterprise that correspond to the interests of the state, owners and the society”, “capacity to plan and forecast the effective performance of the enterprise according to the aims established, economic environment and the labour market”, “capacity to manage a national or an international (multicultural) team”, “ability to work on individual level and as a part of a team, applying the knowledge and leadership skills”, “ability to take responsibility for the results”, “capacity to represent the enterprise in undertakings with other enterprises, organisations and institutions, including local government and state institutions” and “ability to collaborate with other enterprises, owners and groups of other stakeholders in order to achieve the aims of the enterprise”.

Whereas certain personal competencies and skills (analytical skills, communication, collaboration, persuasion, planning, and problem-solving skills) are required to carry out professional tasks, including: “to understand the interconnections of the business”, “to analyse the processes of the economic environment and to make decisions according to the changes”, “to analyse the performance of the enterprise, to identify the problems and to develop possible solutions”, “to manage the team/group”, “to work in the team/group, to delegate and coordinate the execution of the tasks”, “to introduce progressive solutions and methods for the performance, production and management of the enterprise”, “to communicate and collaborate with the employees, partners, owners, mass media, state and non-governmental institutions”, “to obtain new knowledge on regular and individual basis” and “to plan and organise individual/own work effectively”.

The examined examples of the professional standards show that these standards directly or indirectly include requirements to develop personal ‘soft’ competencies and skills.

Since 2013, when the new performance appraisal system was introduced in the Latvian public administration, competency frameworks have been developed and implemented. The following competencies used in the public sector can be applied to the surveyed occupation groups:

- 1) Accountant: communication, client orientation, team-work, initiative, planning and organising, accuracy and quality of work.
- 2) Business Administration Specialist (those responsible for the policy implementation within the framework of the public administration): communication, client orientation, team-work, planning and organising, analytical thinking and results orientation.
- 3) Line Manager: team management, motivation and development of the subordinates, planning and organising, result achievement and dedication to organisational values.

Consequently – competencies and skills that are reflected in the professional standards can be found as important in the public sector. Moreover, the idea to develop competency

approach in the public sector comes from the private sector, which allows the conclusion that competencies that are taught and developed in the higher education establishments are demanded in the labour market both in private and public sector.

Professional Standards are developed by the Ministry of Education and Science in cooperation with the line institutions of the public sector and professional organisations (including educational institutions and employers organisations). This provides the possibility to take into account the interests of all the stakeholders. Educational institutions develop their study programmes based on the professional standards thereby securing that requirements of the employers (public and private) are taken into account.

Analysis of the Current Situation

For an extended period, studies related to the compliance of the professional standards to the demands of the labour market and skills, knowledge and competences required to several professions have been carried out by the Alberta College. For instance, at the XI students' conference of the college "Students for the Development of Latvia" (2013) a study carried out by Ieva Tiesniece-Mītere and Agnese Vingre "Compliance of the Professional Standard to the Demands of the Profession of the Human Resource Manager" was presented. It was concluded that "the professional standard is overall compliant with the demands of the human resources professional. Evaluation of the tasks, competence, skills and knowledge, leads to the conclusion that incorporation of the new skills and knowledge [in the standard] as well as the change of the knowledge level can be considered" (Tiesniece-Mītere & Vingre, 2013). It has also been noted that "communication skills [...] as well as the ability to master novelty, be in the state of permanent development [...] should also be included in the professional standard" (Tiesniece-Mītere & Vingre, 2013). Additionally, "the professional standard of the human resource manager should include knowledge about the project management, innovation process and [...] law" (Tiesniece-Mītere & Vingre, 2013). It is impossible to master knowledge about innovations without developing certain personal competencies, for instance, innovation and creativity, personal development, problem-solving etc. Conversely, innovative actions would foster the development of personal skills, including the ones listed above. The study also reveals that "although the required competencies and tasks might match, the professionals within the public administration might have a professional title that is different from the professional standard; it is due to the varied criteria of the allocation of the professional title within the civil service and the Latvian National Armed Forces" (Tiesniece-Mītere & Vingre, 2013). It is suggested that this discrepancy should be prevented. The authors suggest "continuous inquiries of the employers or human resource professionals regarding the necessary knowledge, competence and skills and their compliance to the study programmes to be carried out" (Tiesniece-Mītere & Vingre, 2013).

The authors of the study “Professional Competencies, Skills and Knowledge Requirements for the Accountancy Profession” – Evita Divre, Ilviņa Rupeka – Rupeika and Sandra Zeļča, establish that “the tasks and requirements for the accountancy profession included in the professional standard comply to the practice” and “the main qualities of the accountant in order to carry out the professional tasks are accuracy, patience, coherent and analytical thinking, communication skills, as well as good time management skills” (Divre, Rupeka – Rupeika & Zeļča, 2015). This highlights the importance of the personal skills and qualities of the profession.

In the study “Professional Competence, Skills and Knowledge of a Manager of a Small and a Large Enterprise” (authors: Sigita Rāviņa, Mikus Legzdiņš, and Evita Ozoliņa) it is established that “the professionalism of a manager is determined not only by the length of the professional experience and education but also by the attitude towards work, enterprise and employees” (Rāviņa, Legzdiņš & Ozoliņa, 2015), indicating the importance of the personal competence. It is pointed out that “in comparison to the managers of small enterprises, the managers of the large companies are more concerned about their responsibilities” (Rāviņa, Legzdiņš & Ozoliņa, 2015). It is possible that the more skilled managers of the small enterprises either develop their businesses or are recruited by larger companies, whereas those entrepreneurs who have less professional and personal competence and skills lose out to the competition. The following are considered to be the most essential skills of a manager: ability to form, unite and manage the employees, ensure accurate and high quality communication with subordinates, a skill to search and find beneficial partners. The study also emphasizes the characteristics of a manager, including “strong personality, fairness and reputation (respect) among the colleagues and within the society, which is closely linked to the reputation and the sustainability of the company” (Rāviņa, Legzdiņš & Ozoliņa, 2015). One of the suggestions of the study for the companies is “to create a specific placement for young people, who are willing to start the career in the position of a manager or a deputy manager of the enterprise” (Rāviņa, Legzdiņš & Ozoliņa, 2015).

The study “Professional Competence, Skills and Knowledge Required to the Manager and Business Administrator” (authors: Dace Putniņa, Anna Krista Eškina un Ričards Čivlis) state the opinion of the managers: an entrepreneur does not necessarily need a degree but, at the same time, has to carry out tasks that are not stated in the professional standard, therefore it is suggested to accurately assess and ascertain “what skills, competence and knowledge are required to the each professional of the field” (Čivlis, Putniņa & Eškina, 2015). It is also the general course of the study of the College, gradually focusing on the professions that can be learnt at the College. During the study, the authors note that “the professional standards of a business administrator are being observed and respected” (Čivlis, Putniņa & Eškina, 2015).

Within the framework of the study on the needs of the employers and collaboration with educational institutions, in order to strengthen the competitiveness of the companies (Nordplus Horizontal 2014 “Skills on Demand: Meeting Labour Market Needs”, NPHZ-2014/10084), a focus-group discussion was carried out, inviting the representatives of the employers and asking the following questions:

- Which personal competences and skills are most important for new employees?
- Which of the most important competences and skills of new employees are sufficiently developed, and which still need to be developed or improved?
- How can educational institutions help employers to attract those employees who possess necessary competences and skills?

Different opinions were expressed regarding the most essential personal competences and skills of the young employees, emphasizing the skills of personal development (including the innovation), ability to manage stressful situations, interpersonal and communication skills (including in the environment of different cultures and traditions), planning, presentation and public speaking skills. The participants were discussing the importance of the language knowledge – Latvian and at least 2 to 3 foreign languages (conversational and writing skills).

When analysing what kind of critical competencies and skills the new employees have developed and what are the skill gaps, it was concluded that there is no general tendency – strengths and weaknesses of the skills strongly depend on the personality. From the employers’ perspective, it is necessary to carry out an assessment related with the responsibility and ethical behaviour of employees. Among the weaknesses of the new employee’s self-development, planning and organising, (short-term thinking), problem solving and independence are mentioned more frequently. One of the strengths of the new hires is leadership but ambitions sometimes dominate over ability to be a leader. During the discussion, it was found that “a lack of skills does not prevent employees from finding solutions to difficult situations”. This will be taken into account during the study process, as well as in the employee adaptation period when beginning the career. It is crucial to focus on the development of the most important competencies both during the studies as well as at work.

One of the issues under discussion was focused on the possibility of educational institutions to prepare new employees for the labour market. The necessity to organise a good quality field practice was stressed as it provides opportunity for the students to develop required competencies. Field practice is helpful and meaningful if the trainee can give and receive feedback (communication is carried out in both directions).

All in all focus group discussion and several surveys carried out by the Alberta College approves that professional standards comply with the requirements of the labour market, however attention has to be given to the following aspects: necessity to analyse the compliance of the skills and review on the regular basis thereof; however the most important is to introduce the improvements in the process of studies and, in close

cooperation with the employers – apply in practice as it offers the direct interaction among students (potential employees), higher education establishments and employers.

Conclusions

- 1) Nowadays professional experience and education in the labour market are supplemented with the competencies as the competency approach helps to measure the outputs produced by the employees and secure the productivity of the organisation. Therefore, educational institutions have to collaborate with the employers to prepare young professionals who comply with the market requirements.
- 2) Educational institutions should be well informed about the global employment trends in order to provide the study programmes, which allow for preparing the professionals demanded in the labour market.
- 3) Professional standards under analysis provide an opportunity to prepare specialists suitable for the labour market; however, these documents have to be improved and supplemented according to the current needs of the labour market.
- 4) The role of personal competencies is constantly increasing both during the studies, as well as at work.
- 5) Much attention will be given to development of language skills and the ability to apply those skills.
- 6) The most important personal competencies and skills are the following: self-development, stress management, cooperation, communication, planning, presentation and public speaking.
- 7) Special attention will be drawn to the following skills of students: self-development, planning and organising, problem solving and ability to work independently.

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CREATING SHARED VALUE, ORGANIZATIONAL LEARNING, AND ENGAGEMENT THROUGH HUMAN RESOURCES

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Abstract

To leverage human capital effectively in a knowledge-based society, human resource professionals must develop shared values, employee engagement, and organizational learning. Through human resource development, management can ensure the skills, knowledge, abilities, and performance of the workforce to build capacity for adding value to the organization. It is critical to attract, develop, and retain talented human capital in order to build learning organizations and align human resources to organizational strategy. To achieve success in the knowledge economy, management should facilitate learning, employee engagement, collaboration, and cross-functional teamwork.

Keywords: *organizational development, human resource management, knowledge economy, employee engagement, learning organizations, shared value systems*

Introduction

An important trend today is the increasing influence of knowledge workers in the economy. Talent is critical to the success of all organization. In the knowledge economy, wealth is created primarily through knowledge workers. Organizations of all sizes and industries must have competent and motivated people to be able to compete successfully in the knowledge economy. Controlling physical and financial assets effectively is necessary but not sufficient to be able to operate successfully in today's complex environment. Employee engagement and shared value systems can improve employee satisfaction, productivity, and problem solving by reducing bottlenecks and addressing customer and employee concerns rapidly (Day 2007; London 1989; McCauley & Heslett, 2001).

In today's knowledge-based society, it is critical that human resource managers develop organizational capabilities through human resource planning that supports the organization's strategy. Studies show that successful firms such as Southwest Airlines built sustainable competitive advantage through their people. Many organizations have shifted their human resource practices to be more pro-active in response to market

forces and taking advantage of emerging opportunities in talent management. Organizations such as Siemens, IBM, General Electric, Dow Chemicals, Vodafone, and Microsoft have addressed work demand needs by attracting, selecting, and training employees with desirable competencies and characteristics to address knowledge-based skills and competitive factors (Global Talent Report: Outlook to 2015).

Literature

Organizations in the knowledge economy are required to discover, manage, leverage, and utilize their resources, people, and technology (Beechler & Javidan, 2007). This necessitates that employees possess the knowledge, skills, and abilities (KSAs) that provide sustained value to the organization. Human resource practices should help develop the employees' KSAs. Specific human resource development programs can help facilitate organizational change and employee behaviour to enhance performance and achieve organizational goals (Gibson, 2008: 235).

Employee development programs should be designed to help gain knowledge and develop specific skills in the workplace. Knowledge-based training generally focuses more on what a person knows rather than on how he or she applies that knowledge. Knowledge-based training is an opportunity to educate employees about organization-specific topics and general areas of knowledge such as on-boarding, employee orientation, safety and regulatory compliance, team-building, leadership skills, supervising, time management, conflict resolution, coaching, and mentoring. In today's knowledge-based society, organizations of all sizes and industries must develop capacity for adapting and responding to environmental change and complexity. To facilitate this, human resource management needs to develop interpersonal training, open communications, and career training of leadership skills.

Skill training needs to be designed to help participants learn how to do something related to their job. Skill training can address specific functions that are important to the employee to perform the job and contribute to the organization's ability to attain its overall objectives. Through skill training, organizations can address specific needs that are crucial for individual and organizational success. Critical areas in skill training focus on learning new skills for the job, upgrading job skills, cross-functional skills, technical skills, improving customer service skills through role plays or scenario exercises, learning new technology and communication networks for information sharing and knowledge transfer. Employee development may include cognitive training for understanding culture-specific differences, emotional training for developing social skills and sensitivity, behavioural training for culture assimilation and interpersonal skill development, and developing shared values, organizational commitment, information sharing and open communication across the organization.

Strategic Role of Human Resources

Traditionally, human resource management has not been involved in strategic management extensively. However, this practice has been changing recently. By collaborating with global experts, we found that human resource professionals need to be proactive by helping the firm develop competitive strategies that are closely aligned with the organizational structure. The role of human resources is critical in helping establish effective management controls and coordination systems as this can assure that the corporate culture unites all employees in the organization across different functional areas and various countries to share the company's goals, values, and priorities (Konyu-Fogel, 2014).

The paradigm shift in global human resource management requires that in addition to finding a "fit" between strategy and structure, human resource managers focus on identifying value-adding processes and develop global leadership skills, competencies by supporting knowledge transfer, best practices, and cross-cultural sensitivity and responsiveness to create competitive advantages.

Organizational development initiatives that focus on developing long-term capabilities of the firm must build on core competencies and competitive advantages fostering a pro-active learning environment among employees at all levels within the organization to work cooperatively and effectively in order to respond to challenges in the workplace through innovation, problem solving, exchange of ideas, information sharing, knowledge transfer, cross-functional alignment, integration, team work and coordination.

Training and organizational development should have a strategic role in an organization as these can be directed to improve employee performance, quality of services, customer satisfaction, and reduce costs of operations by focusing on human resources as a critical component of the organization's assets. For successful employee development and training programs, managers have to use a systems approach as outlined in Figure 1.

The first step in using the systems approach is to conduct a need assessment, which should include an analysis of the organization's external and internal environment and its resources, determining what contents and tasks, personal characteristics and required competencies should be achieved by the program as shown in Figure 2.



Figure 1. Systems Approach of Employee Development & Training

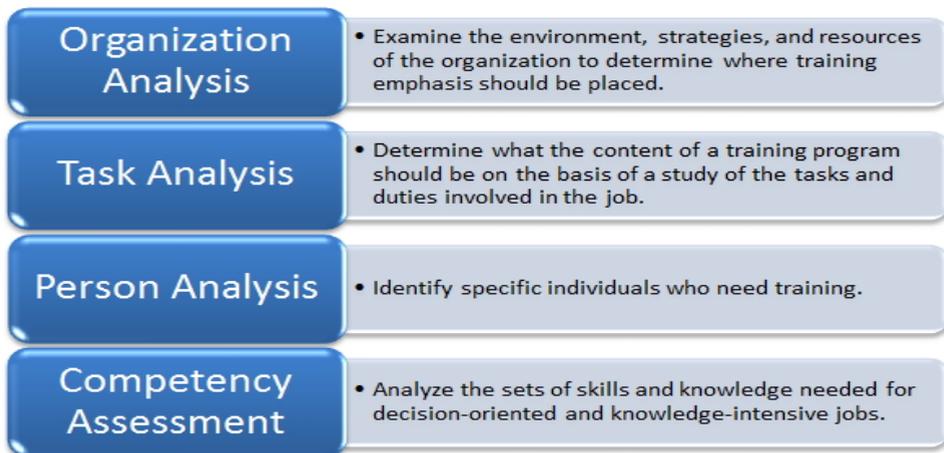


Figure 2. Need Assessment

Based on the results of the needs assessment, human resource managers next should develop the program objectives for the employee development and training. As shown in Figure 3, four factors have to be considered in this process: instructional objectives, trainee readiness and motivation, principles of learning, and the characteristics of adult learners.

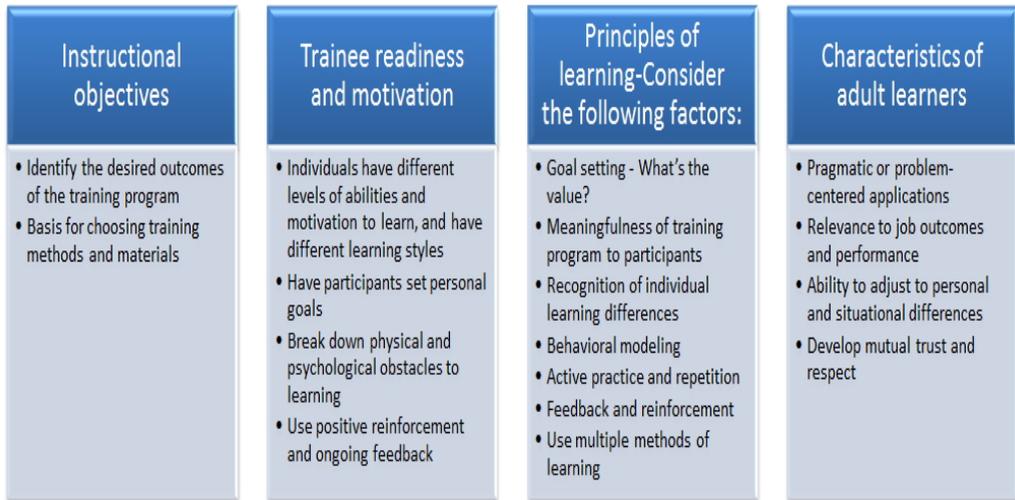


Figure 3. Objectives & Factors to Consider

Instructional objectives should identify the desired outcomes of the training program and should be the basis for choosing training methods and materials. The trainee readiness and motivation considers that individuals have different levels of abilities to learn, and have different learning styles. It is important to set personal goals and break down physical and psychological obstacles to learning, as well as to use positive reinforcement and ongoing feedback. In addition, managers need to use the basic principles of learning considering that employees need to recognize the value of the training and it must be meaningful to participants, recognizing individual learning differences. Active participation, behavioural modelling, feedback, reinforcement, and multiple training methods can assure success and employee engagement. Adult learners prefer pragmatic, problem-centred applications, and relevance to job outcomes and performance. Adjusting to personal and situational differences and developing trust and respect among employees are necessary for achieving the program objectives effectively.

Training Methods

To develop organizational learning and engagement, managers should use hands-on applications, case studies, role plays, and active learning as applicable. Case studies may be most appropriate when analytic, problem-solving, and critical thinking skills are important and the knowledge, skills, and abilities (KSAs) are complex thus participants need time to master the material. Active participation is desired when the learning requires questioning and interpreting the content or interaction with others is necessary

to accomplish the training objectives such as team problem solving and improving handling customer service requests.

When using role plays in training, managers need to ensure that the group members are comfortable with each other. Examples of practices recommended for role plays include:

- 1) Select and prepare role players by introducing a specific situation.
- 2) Help participants prepare in advance by asking them to describe potential characters.
- 3) Generally volunteers make better role players.
- 4) Prepare the observers by giving them specific tasks (such as evaluation or feedback).
- 5) Guide the role-play enactment through its bumps because it is not scripted.
- 6) Keep it short.
- 7) Discuss the enactment and prepare bulleted points of what was learned.

Behavioural modelling is an approach that demonstrates the desired behaviour and gives trainees the opportunity to practice and role-play those behaviours and receive feedback. This method involves identifying four basic components of the program: What are the main learning points? What model is the most appropriate for practicing? How can role play facilitate the learning? What feedback and reinforcement are the most appropriate to achieve the learning goals and outcomes?

Diversity training may include behaviour modelling and role plays. This program should focus on awareness building to help employees appreciate the benefits of diversity. Specific skill building exercises may provide employees with the KSAs necessary for working with people who come from different backgrounds.

Training Delivery

Organizations may choose to offer training programs at the location of the employees or externally. Internal training may include traditional classes, on-the-job training, and self-guided training on the company portal, mentoring/coaching, job shadowing, internal trainers, training projects, and group-based seminars/workshops. Web conferences, podcasts, training at outside locations, educational leave, blended training, and teleconferencing may also be used effectively.

Implementation and Evaluation

During the implementation of the training, managers must schedule the time, place, and methods of the training activities, conduct the training program, and monitor the training effectiveness and participant's feedback.

In evaluating training program, it is important to develop specific metrics to assess employee skill upgrades, program participation rates, cost/benefit analysis, pre-test, post-test measures, pre-test and post-test customer satisfaction ratings, and measurable learning outcomes. The evaluation may include measuring participant reactions, assessing the utility of the training program, analysing rate of return on investment, and benchmarking.

Participant Reactions. This simplest and most common approach to evaluating training programs is assessing the reactions of the trainees. Potential questions in the evaluation:

- What were your learning goals for this program?
- Did you achieve them?
- Did you like this program?
- Would you recommend it to others who have similar learning goals?
- What suggestions do you have for improving the program?
- Should the organization continue to offer it?

Measuring Utility of Training Programs. This method consists of calculating the benefits derived from the training program. The evaluation should consider:

- How much did quality improve because of the training program?
- How much has the training contributed to profits?
- What reduction in turnover and wasted materials did the company get after training?
- How much has productivity increased and by how much have costs been reduced?

Return on Investment. Managers should evaluate the training program in terms of the extent to which it provides knowledge and skills that create a competitive advantage and organizational culture ready for continuous change. Return on investment (ROI) can be assessed based on the ratio of the results (learning outcomes achieved) relative to the costs of the training: $ROI = \text{Results} / \text{Training Costs}$. If the ROI ratio is > 1 , the benefits of the training exceed the cost of the program. If the ROI ratio is < 1 , the costs of the training exceed the benefits.

Benchmarking. To use benchmarking for evaluation, managers need to conduct a self-audit to identify the areas for benchmarking. This process includes first establishing goals and collecting data about the activities considered for benchmarking. Next, managers need to analyse the data comparing results to target measures, identifying the gaps and cause of the differences, and develop a plan and course of action to address the gaps. The final step in the benchmarking process is to implement the necessary change, monitor progress, and redefine future benchmarks.

Creating Shared Value

Employees and managers in the organization must strive toward common goals and objectives (Dess, Lumpkin & Eisner, 2011: 25). Human resource manager should develop clear objectives and a shared vision among employees that incorporate common values and an understanding of how they may contribute towards accomplishing organizational goals. Organizational visions are generally expressed through mission statements that provide a long-term direction to guide employee behaviour and performance to achieve stated goals.

A shared vision is a strong motivator that inspires people to work jointly towards accomplishing organizational goals. According to Senge (2006), a shared vision creates a commonality across the organization that gives coherence to all activities. When people share a common vision, they are bound together by common aspirations and mental models. Creating a shared vision is critical for a learning organization because it provides the focus and energy for learning. Learning organizations must have more than adaptive learning. They need capacity for generative learning, which can only occur when people shared goals and values to accomplish something that truly matters for them. Generative learning expands our ability to create new applications.

Shared value consists of people understanding the contribution of their job, talents, skills, and knowledge in creating value to the organization. This helps employees see the bigger picture, develop systems thinking, and connect cross-functional tasks in the value chains. By developing shared values, people can find meaning in their work, which can create excitement and energy for greater performance, as well as improve morale and employee satisfaction.

Organizational Learning

The organization's long term strategic focus must be a priority in human resource planning. Leaders have to assure human resource capability through shared organizational values by developing core competencies and organizational culture that facilitate workforce alignment and a shared mindset. Employee policies should focus on increasing strategic alignment and coordination, as well as local responsiveness to meet local needs. Employee selection, training, performance management, and compensation practices must support the organization's strategic priorities. Leadership skills and operational competencies should be included in training programs, as well as emphasizing the importance of employee engagement and organizational learning.

An important factor in assuring effective human resource planning is the ability to engage people across the organization in the planning process by instituting clarity about the organization's vision, mission, goals and objectives, and the role of individual

employees and departments in accomplishing organizational goals through commitment, motivation, and reward systems.

To support the organization's strategic plan, human resource managers must conduct on-going forecasting and external and internal environment assessment to evaluate market characteristics, emerging trends, skills and competency requirements, and changes in employee expectations, behaviours, attitudes, and motivation. By identifying strengths, weaknesses, opportunities, and threats, human resource policies and practices should reflect ethical norms and values in the workplace (Vance & Paik, 2015). Organizations may develop a separate strategic and human resource plan or combine these into one strategic plan. The key is that human resource planning must consider the organizational strategy to anticipate employee skill and labour needs. To achieve this, leaders must look at the organization's current position and where the organization intends to be in the future.

Employee Engagement

Employee engagement is a workplace approach designed to ensure that employees are committed to their organization's goals and values, motivated to contribute to organizational success, and are able to enhance their own sense of well-being.

The 2012 Gallup Survey indicates a direct relationship between employee engagement and performance outcomes in the workplace (Crabtree, 2013). The engaged employees on average had double the performance of disengaged employees in areas of customer ratings, profitability, productivity, turnover (for high-turnover and low-turnover organizations), safety incidents, shrinkage (theft), absenteeism, patient safety incidents, and quality (defects). This finding underlines the importance of establishing employee practices that establish positive employee relations in the organization. Human resource strategy should place a high value on employees as stakeholders. Organizational policies should maintain fairness and efficiency in the workplace, advising both supervisors and employees on specific employee relations issues.

The effectiveness of employee engagement is directly related to the quality of an organization's communications. When supervisors are familiar with employment policies and employees are aware of their rights, there is less opportunity for misunderstandings to arise and productivity to drop. As organizations have delegated more responsibility and decision-making authority to employees (who are closer to the customer), their need to access information has increased substantially. One aspect of employee engagement programs is communication. Human resource policies can contribute positively to employee engagement by developing and maintaining information dissemination, employee feedback, and employee assistance program.

To encourage knowledge dissemination and information sharing in the organization, human resource managers need to help develop an organizational structure and company culture that promote employee contributions, active engagement, and the sharing of best practices. Knowledge sharing may be facilitated by open communication, learning and transferring core competencies within the organization, and by establishing reward systems that acknowledge and promote employee contributions.

Hansen (2009) discusses how organizations may develop strategic workforce planning in an uncertain world. Human resource practices should encourage employees to share knowledge and information by giving rewards and direct compensations for creating added value and exceptional performance. Employee policies need to incorporate compensation and reward systems that foster a learning environment where employees are motivated and rewarded for knowledge sharing and creating value to the organization. An important factor in this process is cross-functional teamwork, which facilitates open communication, idea generation, knowledge sharing, and on-going data analysis and filtering of information.

Figure 4 describes employee engagement and feedback programs that may include: employee attitude surveys, appeals procedures, employee assistance programs (EAPs), employee recognition programs, suggestion systems, and employee rewards.

Employee Rewards. Awards give public credit to people or teams that make outstanding contributions to the organization.

Suggestion Systems. Suggestion systems are designed to solicit, evaluate, and implement suggestions from employees, and then reward the employees for worthwhile ideas.

Employee Recognition Programs. Employee recognition programs enhance effective employee relations by communicating to all employees that the organization cares about their ideas and is willing to reward them for their efforts. The HR department can help develop and maintain formal employee recognition programs such as suggestion systems and recognition awards.

Employee Assistance Programs (EAPs). EAPs help employees cope with personal problems that may interfere with their job performance. These problems may include alcohol or drug abuse, domestic violence, elder care, AIDS and other diseases, eating disorders, and compulsive gambling. Confidentiality is an important component of these programs.



Figure 4. Employee Engagement & Feedback

Appeal Procedures. Fair and consistent treatment of employees is critical in employee engagement. Employee policies should be in place to provide opportunity for employee appeal procedures as this promotes fairness and clear guidelines for acceptable workplace practices.

Employee Attitude Surveys. Organizations should conduct regular employee attitude surveys to assess employee perceptions and opinions about employment issues and relations. By analysing survey results, managers can identify specific areas that may be addressed for improvements.

Conclusions

To create shared values and effective employee relations, it is necessary to provide both upward and downward communications in the organization. Many organizations offer employee feedback programs. The upward communication channels are between employees and management. These programs are designed to improve management-employee relations by giving employees a voice in decision making and policy formulation and by making sure they receive due process on any complaints they lodge against managers.

In human resource planning, leaders must ensure minimal disruption in the given work area and reduce possible confusion that may arise from a change in leadership. The main benefit of human resource planning is to assure that company strategy and organizational goals are achieved smoothly without major interruptions in operations. Organizations may choose from several approaches to conduct human resource

development based on their preferred management styles, goals and objectives. In addition to the company's internal factors related to the organizational structure, strategy, and culture, there are situational factors that should be considered for achieving successful organizational learning, shared values, and employee engagement.

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THE EFFECT OF ADVERTISING ON BRAND MEASURES IN A LOW INVOLVEMENT CATEGORY

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Abstract

Understanding the relationship between advertising investment and sales response has long been a marketers' objective. Marketers in low involvement categories face unique challenges when trying to influence this relationship. This paper considers the challenges of a data-rich category-leading low involvement brand that spends tens of millions of dollars each year on advertising. Consumer brand measures, incl. advertising awareness and purchase consideration are considered. The findings based on three years of media data do not indicate any relationship between television and radio advertising and either advertising awareness or purchase consideration. Refinement options such as seasonality and highly efficient advertising show some indications of influencing advertising awareness but more research is necessary. Implications are discussed and future research is suggested.

JEL code: M3

Keywords: advertising, purchase consideration, low involvement, advertising impact model.

Introduction

How does advertising affect sales? Advertising research has been considering the relationship between promotional efforts and sales response since the 1950's (Berkowitz et al., 2001). Advertisers are interested in understanding the effects and effectiveness of past advertising for future planning, development, and execution. The impact of advertising on sales is of critical importance to building brands and translating brand power into profits. Few companies engage in any type of modelling activity to explore this relationship.

Many mid to large advertisers administer ongoing Internet and/or phone surveys to collect consumer opinions on key measures of brand and advertising, including brand and advertising awareness, familiarity, opinion, overall rating, purchase consideration, sales and loyalty (Levens, 2012). This depth of data, combined with historical media plans represented by target rating points (TRP's, provides the opportunity to explore

relationships between variables and to create a predictive model for a given brand. One TRP represents 1% of a targeted demographic group that viewed a specific advertisement.

This paper will explore advertising impact on sales in a unique business environment that has not previously been studied – a low interest business sector. The data source for this research involves a market share leader in transportation parts and service. The business used as the data source (referred to as ‘brand x’ throughout this paper as they did not want their name divulged) sells its products and services through a multi-step distribution channel in the transportation parts and service sector. As a result, retail sales are not available. However, purchase consideration data is available. Although the statistical relationship between sales and purchase consideration for brand x has not yet been modelled, brand x has explored upper funnel relationships between unaided brand awareness and percentage excellent rating (five point rating on five point scale based on people’s awareness of the brand) with a correlation of 0.57 and television brand awareness and percentage excellent rating of 0.73. Both revealed strong relationships but additional variables needed to be added to the model to move closer to the relationship between sales and advertising. When we look to an industry norm across all business sectors, Millward Brown, a global advertising research company, claims an average aggregate business category correlation between purchase consideration and sales of 0.85. Consequently, purchase consideration is used as a surrogate for sales in this paper.

Historical Perspective of Marketing Impact on Sales

Response models are of interest throughout business categories and have been for over 80 years (Woodworth, 1929). They have long been used to explore market behaviour and predict the outcome of marketing decisions (Vakratsas & Ambler, 1999). To accomplish this, time series models have been a methodology of choice since the 1950’s. A multitude of models have been developed using this methodology for many marketing relationships, incl. brand and category management, advertising and price sensitivity, advertising and product availability, and advertising and personal selling (Grewal, 2001).

Many of the relationships explored above reveal the increasing complexity in establishing robust models. Marketing variables not only interact among themselves but also with environmental variables that result in marketing outcomes. Decisions on marketing actions are often derived from analyzing market performance. The environment influences both marketing action and market performance and thus creates complexity. Analyzing marketing functions with time series coefficients to explore the relationship between market outcomes (sales), input (advertising), and environmental conditions (market expansion) is of current interest within the advertising research community (Grewel, 2001).

While the increasing amount of single source data is enhancing the importance of time series analysis, there are concerns with such a model. One of the principle challenges to the model is that a model outcome can be developed even without including potentially critical variables. Even if confidence is high that all relevant variables are identified, it may still be difficult to quantify critical variables (Heizer, 2002). Macro-economic variables like GNP and employment rates may need to be considered, as well as price movements and changes in advertising expenditures. Governmental regulations and competitive actions can each influence market outcomes and may have more impact on the dependent variable than those variables included in the model.

Current advertising research is continuing to examine the relationship between marketing and sales and, in addition to sales response to advertising, is trying to answer specific questions like the optimal allocation of dollars within advertising mediums. Advertising research is also recognizing the complexity of models by utilizing a larger variety of statistical techniques that are designed to strengthen trend data like smoothing and many advanced statistical techniques common to the Social Sciences like structural equation modelling. Both of these techniques will be discussed in this paper.

Model Development

The question of marketing influence on sales for brand x does adhere to the basic tenets of statistical modelling. A statistical model is appropriate in this instance because of the following (Gilliland & Prince, 2001):

- there is historical demand;
- data is reliable;
- demand behaves such that it can be captured by statistical methods

The statistical model was developed using the seven-step process outlined by Render and Stair (2000). The seven steps include:

- defining the problem;
- developing a model;
- acquiring input data;
- developing a solution;
- testing the solution;
- analyzing the results;
- implementing the results.

There are feedback loops from testing the solution to developing the model and from analyzing the results to developing a model.

Defining the problem

Advertising expenditures for brand x have increased in both real and nominal terms over the past 20 years while market share has decreased significantly over the same time. Since market share is determined by sales volume, there is increasing emphasis on optimizing the role of advertising through understanding the relationship between advertising and sales. Brand x should be subjected to statistical modelling to determine such a relationship.

Developing the model

In order to model the relationship between advertising and sales, the sources of available data must be subjected to due diligence to confirm availability and viability. The business model undermines the challenge to model advertising and sales for brand x. Brand x products are sold through a three-step distribution process that precludes readily available and measurable retail sales data. Sales to intermediaries are in bulk and this inventory can be drawn down in irregular patterns for sales to other intermediaries before reaching the public. Fortunately, a proxy for sales has been identified one step removed in the purchase funnel – purchase consideration. As mentioned in the background section of this paper, purchase consideration correlates 0.85 to sales across a large number of categories, although not necessarily specific to brand x's category. The story of the media plan is much more easily obtained and validated.

This model will compare changes in media plans and the corresponding changes in brand and advertising measures and search for trends that can help model future outcomes. The model could be as simple as a regression equation if the relationships are strongly related to the need for more sophisticated and potentially exotic solutions, and if the relationship is not conclusively determined. There is always the possibility that there is no relationship between the media plans and marketing outcomes, e.g. advertising awareness and purchase consideration. While this would be greatly concerning, it would provide valuable information.

Acquiring input data

The historical data was obtained from two robust data sources over the same 210 week period to minimize data collection error and comparative biases. A brand and advertising tracking process administered by a third party vendor will serve as the source for important measures, including purchase funnel data. This data is collected through random digit dial computer-aided telephone interviews and is executed in the 48 contiguous United States with regional quotas and specific demographic screening criteria. The second data source comes from an advertising agency file that documents media plans for the same period back. The second data file was validated with internal documentation.

Developing a solution

The first step of the statistical modelling process involved the creation of a scatter plot of brand and advertising measures with media plan data and creation of a regression line to provide a first look at potential relationships. Next, correlation models were developed, trend charts created, and transformation techniques, including data smoothing utilized as necessary. SPSS was used throughout the development and analytical phases of this model.

Inconclusive results were then reconsidered with additional variables. The relationships between the model variables themselves were also considered by introducing the concept of structural equation modelling.

Testing the solution

The 210-week data file was analyzed both overall and by segments to search for internal consistency and to provide insights on other possible influential variables to the model. The transformation techniques included seasonality and smoothing to check for volatility within the model. Results were considered and the quantitative analysis process was revisited at model development as necessary.

Analyzing the results

The results of each phase of the modelling were analyzed to determine if relationships exist. If relationships between advertising plans and marketing variables were determined, a sensitivity model would be to forecast the amount of media spend that was necessary to achieve a desired outcome. If no relationship was established, then additional analysis would be completed to identify if other variables were more influential on marketing outcomes.

If it can be concluded that there is no relationship between advertising and marketing outcomes, then future advertising expenditures will come under intense scrutiny and other options, e.g. cause marketing and sponsorships will be evaluated. A new model could then be developed to test the viability of other marketing scenarios.

Implementing the results

The results of the research are intended to support the development of effective marketing plans for brand x in its respective business category. This research provides information that moves closer to concluding the impact of advertising on sales and market share. The model will continually be refined to explore new relationships between marketing variables, including environmental and competitive influences. If a model emerges that is highly predictive in linking marketing and sales, business actions could be taken to address the strengths or limitations of the role of advertising

depending on the model results. The reaction could either support existing practices of advertising or challenge the very role that advertising plays for brand x.

Assumptions & considerations

There are varieties of assumptions that must be built into this model. The data for both media plans and marketing measures is collected daily and has been aggregated to weekly data points to assist in graphical portrayals in the succeeding sections of this paper. The impact of advertising has been estimated at 10% decay per week and it implies rather effective advertising. Although not included in this paper, decay rates of 20% and 30% were also modelled but results were not different from the 10% rate when used in analysis. While magazines, press releases, and Internet communication are influential to consumers, the lag effect is difficult to model and those mediums are excluded from this analysis to control the level of complexity. It is important to note that other mediums are small components of the overall media plan.

Considerations have been identified based on either prior research or expert opinion. These historical and environmental factors should be considered when output is analyzed.

- inconsistent historical media weight;
- noise and far greater weight from other out of category advertisers;
- category seasonal effects (brand measures go up in the spring for reasons other than advertising presence);
- nature of the low involvement category for brand x (in many cases purchase is driven by the need);
- historical low advertising linkage and efficiency.

Results and Discussion

The initial data was prepared as a basic scatter plot. A bivariate regression line was then calculated. As there were only two variables included in each graph, the correlation coefficient is equal to beta in the line equation. Figure 1 illustrates the relationship between total unaided purchase preference and total TRP's with a 10% decay factor. The result is no relationship based on an r-squared of 0.00.

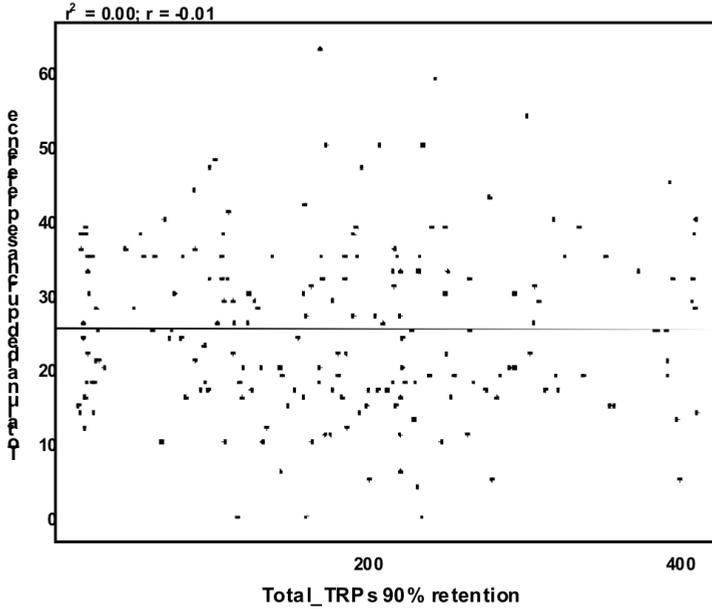


Figure 1. Relationship between unaided purchase preference and TRP's

Figure 2 illustrates the relationship between total advertising awareness and total TRP's with a 10% decay factor. The result is no relationship based on an r-squared of 0.00.

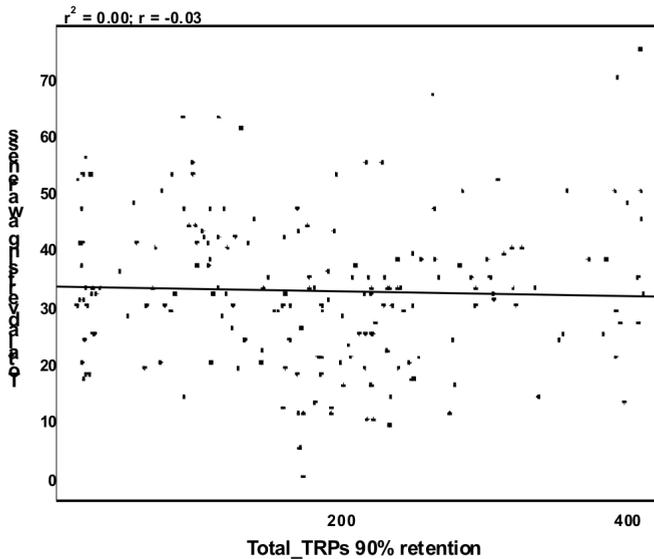


Figure 2. Relationship between advertising awareness and TRP's

Figure 3 illustrates the relationship between total advertising awareness and total unaided purchase preference. The result is, once again, no relationship based on an r-squared of 0.02.

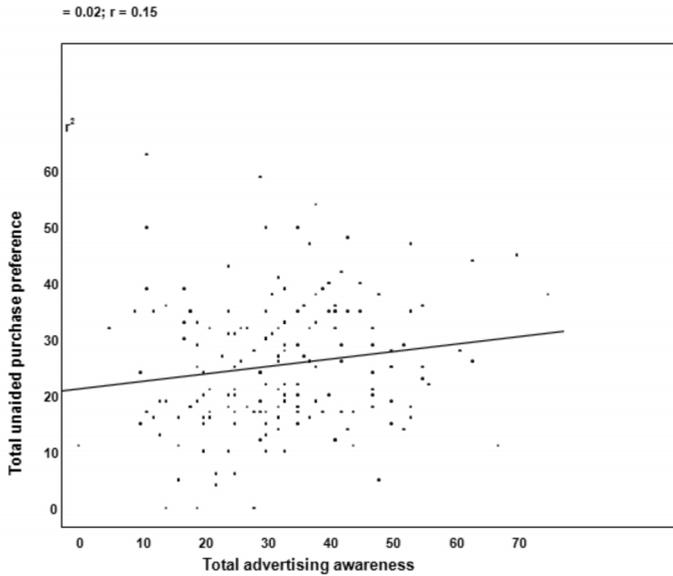


Figure 3. Relationship between purchase preference and advertising awareness

The 90% retention rate (implying a 10% decay rate) indicates that 90% of the advertising effect is retained week to week. Measurement less than 90% were also explored with little difference to the model. The time series regression analysis of weekly data for brand x has found no association between advertising media expenditures and awareness and the relationship between awareness levels and purchase consideration.

In order to verify the lack of association between the measures, several data transformation techniques were utilized. Demand smoothing is one technique that can address data volatility (Gilliland & Prince, 2001). The intent is to better forecast demand. Exponential smoothing has replaced moving averages as the primary method in short term forecasting (Reynolds et al., 2001). It is also recognized as providing a high level of accuracy for short-term forecasts (Gross, 2001). Exponential smoothing uses weighted moving averages where the most recent observation is used. The impact of the other data values diminishes as observations move further in the past (Gross, 2001).

Both exponential and centred moving average smoothing transformations on the purchase preference and advertising awareness data measures are to "smooth" out the fluctuations in the data from week to week. The correlations with the transformed data and advertising expenditure were very similar to those without the transformation.

Since the data was collected weekly, there were spikes that could benefit from smoothing techniques. Two types of smoothing methodologies were used, including a four-week centered moving average and exponential smoothing. The results of the original correlation and the smoothed data are similar in that they are all inconclusive. There actually appears to be a negative relationship in some cases. However, after examination for both the strength of the relationships and number of observed cases (210 weeks), it can be concluded that the data indicates no relationship between any of the three variables. Table 1 represents a correlation matrix of model variables both without smoothing and with two types of smoothing techniques.

Table 1

Correlation Matrix of Key Measures with Transformation

	TV TRP's 90% Retention	Radio TRP's 90% Retention	Total TRP's 90% Retention
Total unaided purchase preference	-0.041	0.029	-0.010
TV advertising awareness	-0.105	0.085	-0.018
Total advertising awareness	-0.156	0.102	-0.041
Total unaided purchase preference – four weeks smoothing	-0.090	0.087	-0.006
TV advertising awareness – four weeks smoothing	-0.186	0.140	-0.036
Total advertising awareness – four weeks smoothing	-0.242	0.150	-0.067
Total unaided purchase preference – exponential smoothing	-0.094	-0.022	-0.077
TV advertising awareness – exponential smoothing	-0.179	0.017	-0.110
Total advertising awareness – exponential smoothing	-0.276	-0.048	-0.217

Trend charts can be structured to illustrate the various time-series relationships between the essential variables over the 210-week period. Referring to Figure 4, it is clear that TV advertising awareness does not appear to be impacted by declines in advertising expenditure.

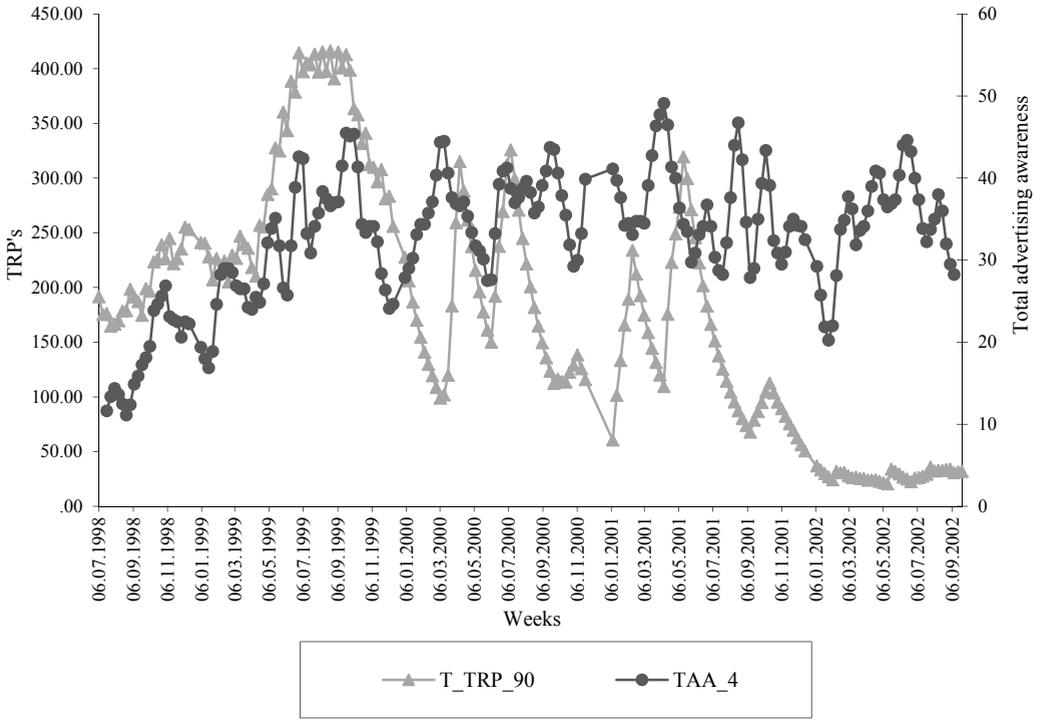


Figure 4. Advertising awareness and TRP trend chart

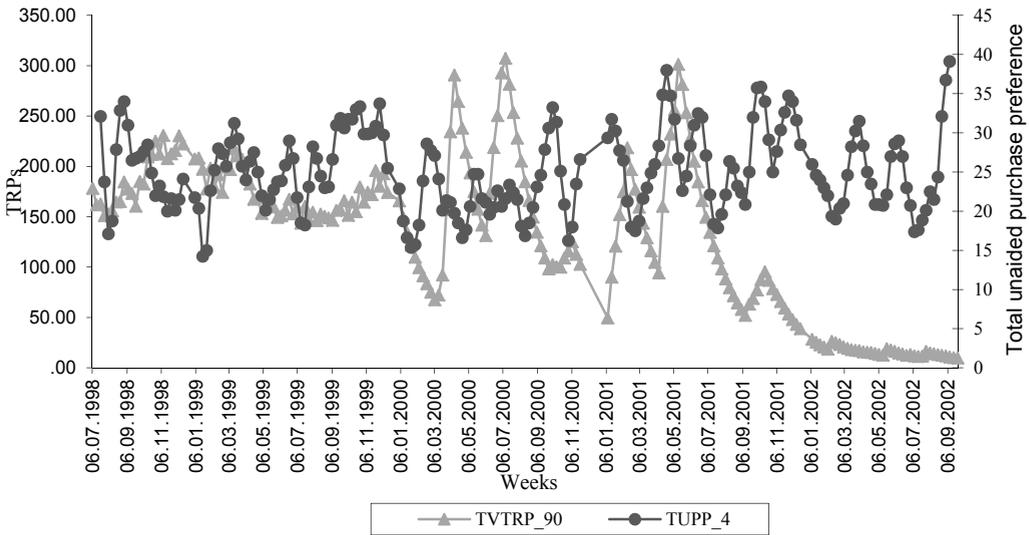


Figure 5. Purchase preference and advertising expenditure trend chart

Figure 5 shows no relationship between purchase preference and advertising expenditure. TV advertising awareness appears to offer at least some possibility for a viable model. It appears that TV advertising awareness does respond to changes in advertising effectiveness as opposed to media weight. Figure 6 identifies the relationship between TRP's and TV advertising awareness while also including advertising efficiency. There appears to be a relationship between TV advertising awareness and TRP's when the advertising efficiency is the highest. More exploration is needed to make a firm conclusion.

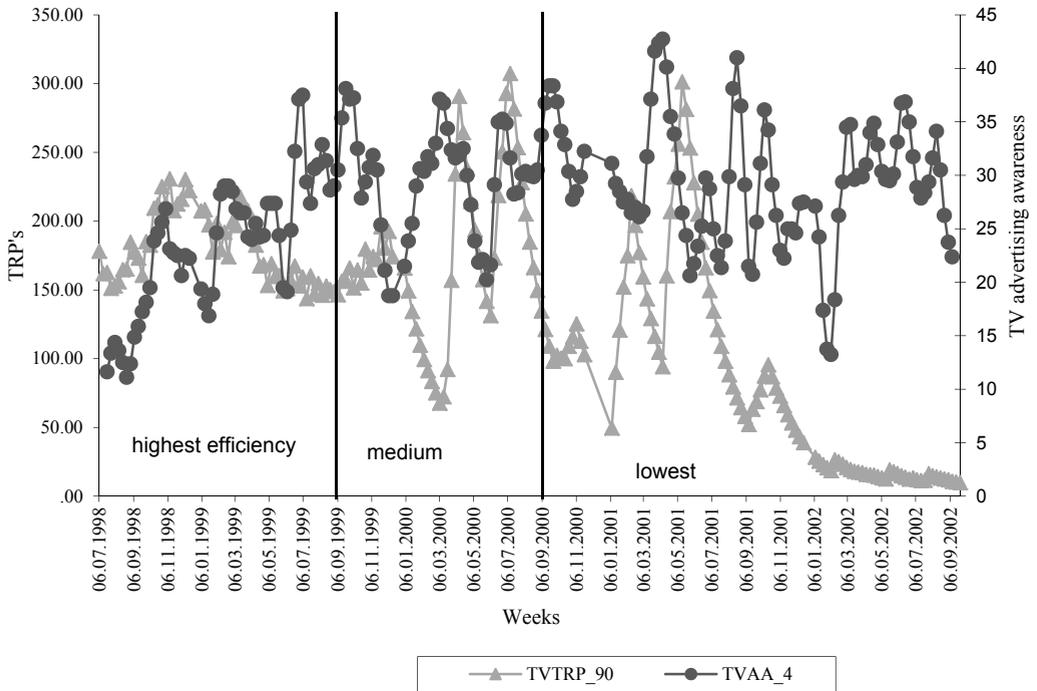


Figure 6. TV advertising awareness and TRP's with advertising efficiency

In addition to the results of the transformed data correlations and the trend charts, the possibilities of lead-lag relationships between the measures were also considered. Similar results to the standard correlation analysis were concluded with no significant relationship between advertising awareness and purchase preference with advertising expenditure. Figures 7 and 8 illustrate the lead-lag (cross correlation) relationships. The horizontal lines are confidence bands established at 95%, where significance is indicated with bars beyond the confidence bands. In the case of advertising awareness and TRPs, the bars are extending below zero, demonstrating a slightly negative relationship as well. The horizontal axis numbers indicate the numbers of weeks ahead

and behind either advertising awareness or purchase preference was tested versus the media plan. A positive number would indicate a lag effect of a media plan on key measures. A negative number would indicate a lead effect.

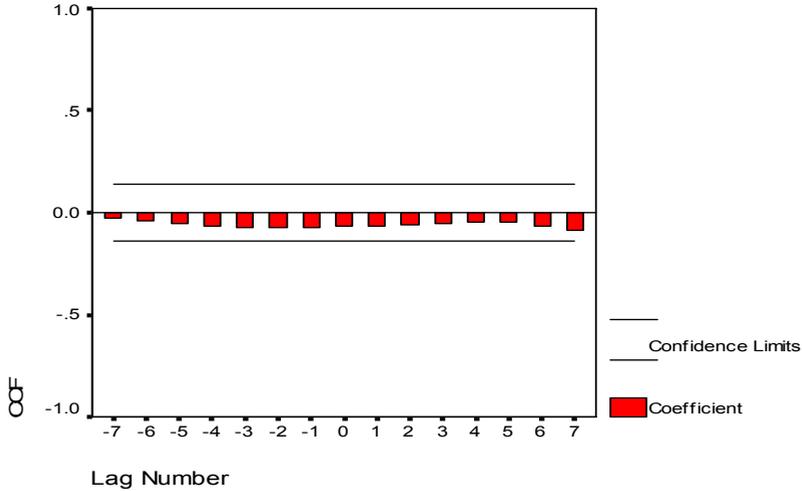


Figure 7. Lead-lag relationship between advertising awareness and TRP's (4-weeks smoothed data / 10% advertising decay rate per week)

With regard to purchase preference, the bars are extended upward in some instances, indicating a slightly positive but not significant relationship for those weeks.

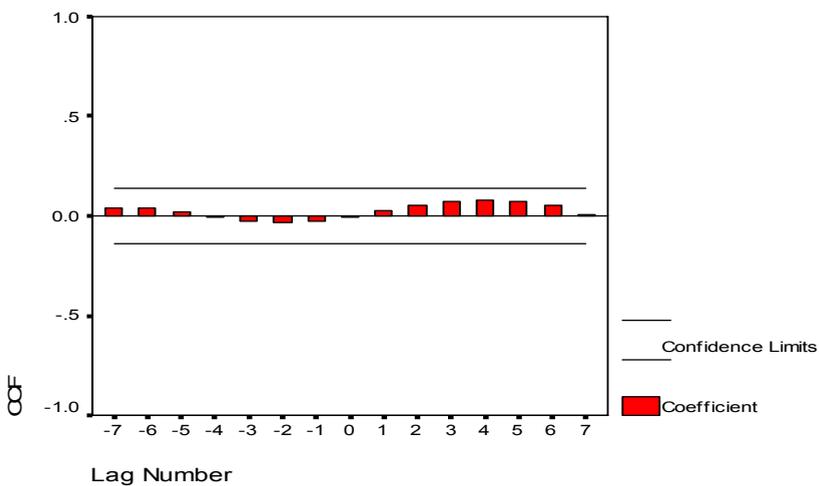


Figure 8. Lead-lag relationship between purchase preference and TRP's (4-weeks smoothed data / 10% advertising decay rate per week)

There is also the potential for seasonality for the brand x category with regard to the spring and fall when products may be purchased more often in preparation and recovery of the winter season. Although there do appear to be increases in measures during those periods, that is not the only time when increases occur. A dummy variable for spring and fall was created, as well as a seasonality dummy variable for spring only. A significant, positive relationship with the spring seasonality dummy variable and advertising awareness was identified as 0.30. However, no relationship was found between purchase preference and either variable. The dummy variables had no relationship with advertising expenditure, indicating that the increases in advertising awareness during the spring are likely due to other factors.

After considering the initial model results and various transformation techniques, it is concluded that there is not a strong relationship between advertising spending and advertising awareness and purchase preference for brand x. The one potential variable relationship came from efficient advertising and TV advertising awareness, although this must further be explored.

There are additional factors to be considered when interpreting the results of this analysis. For the brand x category, the involvement of the consumer in the purchase decision process may be indirect such that the consumer may look to someone else for input or actually delegate the decision. There may be a subset of the population to be studied that is more involved in the actual decision process. Competitive marketing activity may also be influencing the model. This effect from other brands would make it difficult for consumers to distinguish between brands, thus leading to a lack of association between brand x advertising expenditure and advertising awareness.

While the above-mentioned considerations assist in interpretation, there are augmentations that can be made to the model using either new or different variables and more powerful statistical techniques to explore relationships between variables. The relationships between advertising expenditure and brand awareness measures should be investigated. If a relationship exists, this would indicate that consumers may be remembering the brand name but not the advertising specifically. A link from brand awareness to perceptions and perceptions to purchase preference might lead to sales. The next section will focus on model augmentation and variable inclusion and interpretation.

Limitations

This research presents a preliminary exploration of the relationship of advertising on brand measures in a low involvement category. Only one brand was selected, albeit the leading marketing share brand, from the category. Additional brands must be exposed to the same analytical procedure to extend any insights beyond the brand considered for this study. It is also possible that the advertising presented over the 210 weeks was simply ineffective. However, the pretesting criteria and other advertising measures

shared by brand x do not support that conclusion. There could also be other brand measures better suited to this analysis. More purchase funnel and advertising measures across multiple brands in multiple low involvement categories will be considered in future research.

Model Refinement

Many models cannot be effectively estimated using ordinary least squares, regression, or standard path analysis. This can be true for a variety of reasons – incomplete critical variable identification and a lack of understanding of the causal relationships between model variables. The sales response to marketing model could be such a model.

As identified in the last section of this paper, an evaluation of the influence of a media plan on brand awareness, as opposed to advertising awareness, should be conducted. Theoretically, brand awareness should influence brand attributes that should influence purchase consideration. This assumption implies that a simulator can be developed through structural equation modelling.

Structural equation modelling is the combination of two statistical methodologies – factor analysis and multiple regression analysis (Biddle et al., 2001; Hair et al., 1987). These two methodologies allow for the relationships between variables to be estimated while still considering measurement error. The model can also be tested for how it fits the data. Individual parameters can be tested for statistical significance (Biddle et al., 2001). It intended that structural equation modelling will be used to refine the existing model to test hypothesized structural relationships between observed variables. To address the measurement error issue, error will be modelled based on model reliability. Structural equation modelling is appropriate for the model both conceptually and practically as two critical requirements for model integrity are met. A minimum of 100–150 samples is needed to build a stable model and the ratio of data points to parameters is recommended to be between 5:1 and 10:1 (Biddle et al., 2001).

While structural equation modelling is powerful and has clear advantages over other statistical methodologies, there are risks in applying the concepts without fully understanding the limitations. Structural equation models are typically built on point in time data and the level of causality is assumed. Variables could have spurious correlation and survive undetected in a structural equation model (Teas, 2000). The identification of as many critical variables as possible is essential to strong structural equation modelling. Still, there is a risk through structural equation modelling that a broad range of variables is examined with the hope that something will emerge (Biddle et al., 2001).

While not intended to undermine the application of structural equation modelling, the above-mentioned considerations are intended to improve the interpretation of the results of the model. Possible further improvement options include conjoint analysis and control and test groups.

Conclusions

While advertising can make a significant impact on marketing results, this paper has intended to critically evaluate the basic premise of advertising in a specific statistical model. Although the ultimate potential of advertising has not been questioned, this paper has considered the role of advertising for brand x in a low involvement category as measured by consumer evaluations of brand measures.

Several ideas are quite clear from this analysis. First, model results indicate that advertising plans have no influence on either purchase consideration and advertising awareness nor any other brand or advertising measure considered in this study. Second, there is the possibility that advertising efficiency does have a positive influence on purchase consideration although more data are required to support this conclusion. Third, while structural equation modelling can offer a more sophisticated analytical tool, a fundamental linkage between some marketing variable and media plans is required. Fourth, category dynamics (competitive, environmental) influence sales of brand x due to the way products are sold in bulk to distribution intermediaries.

Since consumer measures of attitudes and perceptions are typically correlated, structural equation modelling can assist in the construction of a logical and internally consistent explanatory model. While there is a possibility that structural equation modelling is better suited to this task than more traditional techniques, nothing has indicated so far that any significant relationships exist between advertising expenditures and marketing outcomes.

Should this lack of relationship withstand further analysis, it must be concluded that other factors beyond advertising influence purchase consideration and sales for brand x. After determining the contributive factors and associated costs, advertising expenditures could be reallocated to more optimal assets.

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MARKETING COMMUNICATION OF FASHION EVENTS AND CONSUMERS' EXPECTATIONS

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Abstract

Fashion events (e.g. “fashion weeks”, “fashion days”, “fashion shows” and “fashion fairs”) are becoming more and more popular not only in the cradle of fashion – Paris or Milan but in other European cities, too. Thanks to the development of technology, marketing generates new ways of communication aimed at gaining and maintaining consumers’ interest. The purpose of this article is to explore new trends in the marketing communication of fashion events in the context of consumers’ expectations. The conclusions presented in the paper are based on the literature review and the results of the authors’ own research of primary character (all-Poland questionnaire survey).

JEL code: M31

Keywords: *fashion events, marketing communication, consumers’ expectations*

Introduction

The word “fashion” has its roots in the Latin word “modus”. It is a general term for a currently popular style or practice, which is characterised by constant change. Fashion affects our everyday lives in both conscious and unconscious ways. However, the question arises of how to determine what is modern, elegant and “trendy” in a given season? The textile industry sets the trends for a given season during various fashion fairs, exhibitions and fashion events. Visitors and the media can take a look at new trends in the upcoming season.

Fashion has always been an important part of social life. It is indicative of the social status and determines the membership to a given social group. The fur coats worn in the past solely by monarchs, the hand-woven attire and jewellery were (and still are) a non-verbal message. The fashion industry is an important branch of industry both abroad and in Poland. According to the data provided by the Central Statistical Office of Poland concerning the retail sale in Poland from 2001 to 2010, the clothing segment was one of the fastest growing areas.

Despite the period of decline, an average Polish consumer has some financial resources to buy the goods, which are not the first need items such as clothing or footwear. This is more often branded medium-priced and high-end clothing, for which Polish people slowly give up wearing non-branded clothing, purchased in small, traditional shops or at the market (Badzińska, 2011, p. 126).

According to the report "The Market of Luxury Goods in Poland 2012", only every third respondent confirmed that they knew Polish clothing brands, which could be regarded as luxury. The most frequently mentioned brand was Vistula and among others were: Wólczanka, Bytom, Ewa Minge, La Mania and Ochnik (KMPG, 2012).

There are many scientific theoretical and empirical surveys, which examine the fashion sector and its phenomenon. The issue of fashion advertising is studied by many researchers. In the articles, the authors concentrate mainly on the following problems: self-image creation by product image, congruency with consumers' involvement in fashion clothing (O'Cass, 2004, pp. 869-882), (Vieira, 2009, pp. 179-200), advertisement types and fashion involvement, types of fashion advertising (Andersson, Hedelin, Nilsson, & Welander, 2004, pp. 96-112), (Checchinato, Colapinto, & Giusto, 2013) and fashion advertisement ethical issues (Donovan, 2012, pp. 581-620).

Branding and the strategies of fashion brands are also the objects of advertisement studies in the Polish market (Sempruch & Kall, 2008, pp. 12-18). In addition, they cover issues of ethical fashion (Nowacki, 2014, pp. 181-198) (Perchla-Włosik, 2014, pp. 117-122). However, there is still scientific gap in the knowledge of the marketing communication of fashion events.

The importance of the fashion industry and its growth in the Polish market also determine the directions of scientific research, which aims at deepening the knowledge about this sector.

Research Methodology

The article presents the results of the secondary research and the outcomes of the pilot survey-based study (carried out among all-Poland sample) and the qualitative study. The secondary research was based on the studies available on the Internet, while the primary studies were conducted in February 2015. The studies had the form of a survey involving a questionnaire, which was made available on the Internet. It aimed, among others, at identifying the sources of information about fashion, the factors affecting fashion trends, visiting fashion events as well as making use of social media, especially those fashion-related ones. The pilot sample included 197 respondents. The random selection was used for the purpose of the study. The questionnaire consisted of mainly closed-end, properly scaled questions enabling the respondents to assess certain elements and making choices. Additionally, the authors organised a group interview with the visitors to fashion events. The aim of this interview was to provide more information on certain issues.

Fashion Events – Characteristics

The fashion show has evolved from an exclusive in-house presentation of haute couture held for a private clientele to a biannual spectacle of both couture and ready-to-wear clothing that is seen by a vast cross-section of consumers, the mass media and the fashion industry. In the late 19th and early 20th century in London and Paris, the custom-dressmaking trade also maintained important and effective links to the world of theatre, and advertised its wares by dressing famous actresses both on and off the stage.

The theatre, particularly in France and England, became a place to see the most avant-garde styles. This eventually led to the development of the “fashion play” genre that revolved around the presentation of the latest couture creations. Dressing members of the fashionable demimonde and house mannequins (the term for models in this period) for the races, opera and theatre premieres, and resort areas were another means of advertising up-to-the-minute designs. In the first decade of the century, the social display was supplemented by the shows organised at a fixed time in the couture house. Although a number of designers and fashion personalities claim responsibility for the first fashion show, it was not a single person who started the trend. Instead, it was a gradual evolution towards more formal presentations of seasonal clothing lines. By the mid-1910s many designers, including Paul Poiret, Lucile and Paquin, used the fashion show as a promotional vehicle. In 1910, Lucile promoted the opening of her New York branch with a spectacular fashion show in the city theatre. The presentation had an Arabian Nights theme inspired by vaudeville revues (Finamore, 2014).

There are several different kinds of fashion shows: formal fashion shows, department fashion shows, trunk shows and informal fashion shows. All of the above-mentioned shows are designed to show to the public what designers’ new looks for spring, summer, winter, fall, holiday or special occasions like a wedding or proms are (Fabrics Blog, 2011). Apart from fashion shows, there are other forms of fashion events, such as: exhibitions, fashion fairs or fashion weeks.

Fashion and textile exhibitions present the designers’ new collections for the upcoming season. Many exhibitions are addressed to specialised market segments. Among them are: clothing, women’s, men’s or children’s wear, bridal fashion, accessories and fabrics. The exhibitions also present the latest trends and looks of the season and inspiring fashion shows.

Fashion fairs are also very important for young designers because they offer not only a unique opportunity to show their first collections to a wide audience but also the possibility of establishing customer contacts and gaining some fame. In addition to the exhibitors, the press and purchasers, as well as other interested people working in the fashion business also visit fairs to gather opinions about the market situation and latest trends. Fashion fairs are held mainly in the fashion capitals such as Paris, Milan,

London and New York. However, German cities also organise large and well-known fashion fairs that are held in Munich, Dusseldorf and Berlin.

The Fashion Week is organised by the fashion industry, and it is usually named after the host city or major commercial sponsors. It lasts from four to ten days. The designers and fashion houses are thus able to present their collections to a large audience. The world's first fashion week was organised in New York. The fashion weeks in New York, London, Milan and Paris are called the "Big 4" of the international fashion weeks (F&C, 2014).

The fashion market and the knowledge of this sector constantly evolve. What is interesting, the number of fashion events grows each year. Table 1 presents the fashion shows that are organised in Poland.

Table 1

Fashion Events in Poland

	Event / website	City	Form	Periodicity	FB Likes
1.	Fashion Philosophy Fashion Week Poland www.fashionweek.pl	Łódź	Exhibition / Fashion Week	Twice a year	51.874
2.	ZATARGI www.zatargi.com.pl	Poznań	Fashion fair	Once a year	1.133
3.	Manufaktura Fashion Week Fast Fashion www.manufaktura.com	Łódź	Fashion Week / Fast Fashion	Once a year	–
4.	WROCLAW FASHION MEETING/FASHION MEETING POP UP STORE www.wroclawfashionmeeting.pl	Wrocław	Exhibition / Fashion Week	Once a year	7.206
5.	Art & Fashion Festival (AFF) www.starybrowar5050.com/AFF/pl/	Poznań	Exhibition / Fashion fair	Once a year	6.717
6.	MIĘDZYJARODOWE TARGI MODY PTAK EXPO / PTAK EXPO INTERNATIONAL FASHION FAIR www.ptakexpo.com/dla- wystawcow/targi-mody/	Rzów	Exhibition / Fashion fair	Once a year	6.362
7.	Targi Mody Poznań / Poznań Fashion Fair www.targimodypozn.pl/	Poznań	Exhibition/ Fashion fair (the largest in Poland)	Once a year	1.753
8.	BAKALIE GDAŃSKIE TARGI MODY I DESIGNU / BAKALIE GDAŃSKIE – FASHION AND DESIGN FAIR www.gdanskiebakalie.wordpress.com	Gdańsk	Exhibition / Fashion fair	Once a year	4.485
9.	Warsaw Fashion Film Festival www.w3f.pl	Warsaw	Festival	Once a year	5.863

The Essence of Marketing Communication

Marketing communication unites various market participants who become both message senders and recipients. Thanks to it, it is possible to convey the information about a given brand/product/company, to shape the consumers' needs and create their behaviours. Changes in technical infrastructure of communication influence to a great degree the development of communication. We can observe the transformation of the previous manner of interacting entities into a communication system in the full sense of this word. The system is based on the bi-directional flows of information, interactivity and dialogue (Wiktor, 2013). The classic communication process is composed of the system which has the following elements (Kotler, 2005):

- the sender (the sending person): the source of information, the participant of the communication process who sends a certain message to another party;
- coding: the process that gives the message a symbolic form; its essence is translating the meanings into symbols; the purpose of coding is communication;
- the message: a collection of information directed to the recipient, which encompasses meanings, symbols, coding and decoding as well as forms and organisation (Dobek-Ostrowska, 1999);
- communication channels: by means of them the messages reaches the recipient, having been sent by the sender; we can distinguish personal and non-personal communication channels;
- decoding: a process that involves the recipient's interpretation of the symbols (message) sent and their processing into understandable information;
- the recipient: the party that receives the message, sometimes also referred to as the audience or the public; the message must be clear and comprehensible for the recipient;
- interaction (feedback): the recipient's reaction to the sender's message; the stronger it is, the more effective the communication process is;
- interferences (noises): they are sender's intention-independent events which take place in the environment during the communication process; most often these are: physical interferences (*e.g.* undecipherable photo in the press, the noise of a drill heard during the watching of commercials), semantic interferences (when the words or symbols are wrongly selected or when the text has been wrongly translated into the language of consumers in a given market), disinformation (when the recipients are informed about something that is not true and incredible).

Marketing communication specialists have numerous instruments at their disposal as it is worth presenting the information from possibly the biggest number of angles and this generates the effect of impartiality and objectivity. Communication has to be coherent, rational and relevant. Marketing communication can be:

- mass communication (ATL – above-the-line and BTL – below-the-line): it makes use mostly of mass carriers, which have a wide reach and they include: television, press, radio, posters and billboards;
- individualised (face to face communication): this is a form of individual, often direct contact with a given purchaser; it is based on the personal contact and the employees' skills are of particular importance;
- mixed: this is the combination of mass and individualised communication, with the latter being frequently dominant.

The basic elements of marketing communication are formal and informal communication. Formal communication is a set of typical promotional activities, which are planned and intended. These are mostly:

- advertising (ATL and BTL): this is an impersonal and paid form of conveying market information, which is addressed to the mass audience. Its main types are: post advertising, publishing advertising, television advertising, radio advertising, press advertising, external advertising, cinema commercials, telephone advertising *etc.*;
- public relations: this area includes a set of activities related to working out appropriate relations with the environment in order to build a positive image of a given object. It is constituted by a package of purposefully selected means and organised activities, which provide communication with the environment, establishing good relations with the community. Those activities strengthen the public trust;
- sales promotion: it is sometimes referred to as supplementary, additional promotion. It encompasses all available material means aimed at quick and efficient sales increase, improving the tendency to make use of the offer, arouse recipients' interest by adding an extraordinary value. Such activities must be something unique in the eyes of consumers;
- personal sale: this involves the salesperson's individual presentation of the offer in the course of a direct, personal conversation with the potential purchasers of this offer. This aims at informing and persuading the customers to enter into the transaction. What is of paramount importance here is the personnel and customer service.

Those activities typically take place in the form of planned campaigns. However, those forms cannot be used sporadically and instead, they should be organised and conducted continuously.

Informal communication is a set of activities which – in an indirect manner – convey the information to the environment and influence the image of a given object (Smalec, 2005). What should also be borne in mind is the fact that there are constant modifications and combinations of the above-presented classic forms of promotion, *e.g.* guerrilla marketing, ambient media, sense marketing. The access to the Internet, customers' new

expectations as regards the media and the success of the social media, on which numerous people having a common goal or idea gather, have contributed to the changes in the area of marketing communication.

The Analysis of Research Results

The results of the research show that the greatest influence on the fashion trends is exerted by designers (42% of the responses) and clothing companies (37%), which is presented in Figure 1. A very important group of people who create the changes is celebrity and the representatives of the so-called street fashion. The first three most popular designers are: Ewa Minge, Maciej Zień and the team Paprocki-Brzozowski (Joško, 2015). They often represent quite expensive, luxury brands, and that is why their clothes frequently inspire to search for similar clothes in big chain stores. Clothing and accessories are more and more frequently regarded by the Polish people as the opportunity to manifest their integrity and uniqueness.

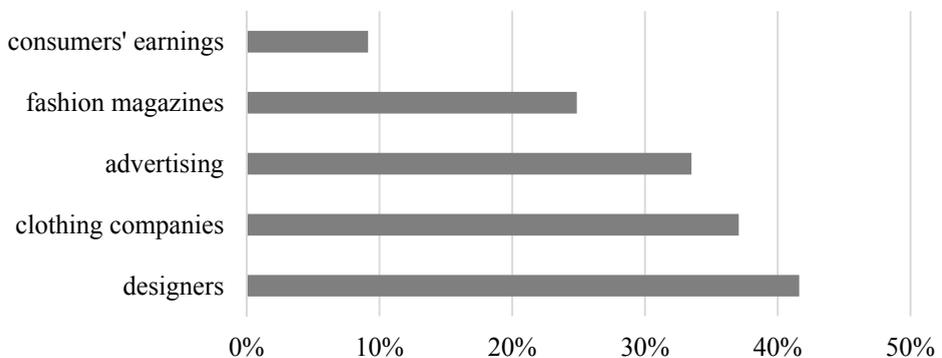


Figure 1. Factors having the greatest influence on fashion trends (maximum two answers could be indicated)

Source: The authors' study based on their research

According to the research carried out by ARC Rynek i Opinia [ARC Market and Opinion], for 57% of Polish people fashion is of importance; whereas 52% of the respondents claim that they are knowledgeable about fashion trends. As many as 61% of women attach importance to fashion, claiming they are knowledgeable about it (Informacje prasowe 2015; "Moda polska 2014", 2015). At present, it can be noticed that people are more interested in fashion but there arises a question of whether those are also people who really follow fashion shows, participate in different fashion events, selecting their styles consistently. The answer is that it is not necessarily so. It turns out

that only 13% of respondents have been to a fashion fair or have participated in fashion-related events within the last year. They have visited the fairs in Łódź, Wrocław and Poznań. Those people positively assessed the exhibitors' offers (91% of the responses: "definitely good" and "rather good") although, as it was stressed by the participants of the focus research, there were no young designers. The exhibitors' offers were also recognized by those participating in the autumn edition of Fashion Fair in Poznań (*Ocena jesiennej edycji Targów Mody Poznań 2012, 2015*). In the questionnaire survey, the respondents also positively assessed the location of the fairs (90% of the answers), in particular those in Łódź and Poznań. However, they also added that sometimes the location did not support the creation of appropriate atmosphere. The respondents assessed the worst (as "rather bad" and "definitely bad") the poor offer of seminars and training courses (as many as 59% of such answers) and the opportunity to talk with famous designers. Both in the quantitative (the questionnaire survey) and in qualitative (the group interview) studies, it was stressed that the entrance fee was too high and that might prevent young people from participating in such events. The positive side of participating in fashion-related events was the chance to meet interesting people.

In the era of modern technologies, virtually anybody can become a "fashion" specialist. Fashion has also become popular in Poland thanks to television shows and breakfast television broadcasts, as well as the development of blogs on this topic. From the results of the research emerges that 84% of the respondents use social network websites at least once a day. 68% of the respondents are "fans" of some fashion website on Facebook and 20% of them – on Instagram.

The major source of information about fashion related events in Poland is the Internet, social network websites (49% of the answers) and fashion blogs (40%), in particular. This is presented in Figure 2.

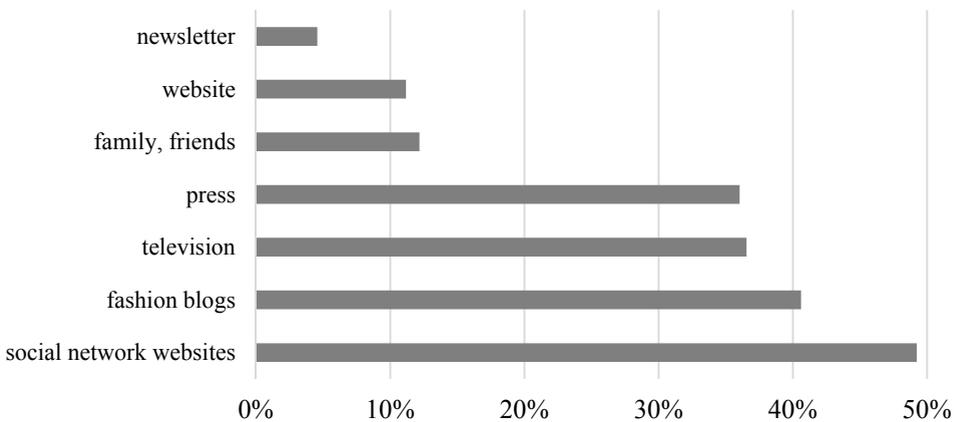


Figure 2. The major sources of information about fashion world events (maximum three answers could be provided).

Source: The authors' own study based on their research

Generally speaking, blogs are read mostly because of the readers' need to deepen their knowledge because they treat this as their hobby or because of funny or amusing contents. 63% of the respondents read the blogs of famous people, with whom they have never contacted personally. 39% of them read the blogs of people who are regarded as authorities whereas 21% of the respondents said that they read the blogs of their family and friends. The people (although there are not many such people among the respondents) who run their own blogs touch upon the issues related to their interests and their artistic work, e.g. jewellery. Blogs were also mentioned as an important source in the report titled "Polish Internet Users' Fashion Inspirations". According to the report, 44% of the respondents read such blogs. They enjoy popularity mainly due to the bloggers' ideas and styling. **56% of the studied fashion blog readers claimed that they had bought some thing under the influence of the inspiration they had found on the blog** (Blogi modowe inspiracją polskich internautów, 2015). **Fashion blogs not only function as journals but they are also becoming "mines of ideas" for new styling. Moreover, they are also the source of knowledge about the fashion trends and fashion-related events.**

Television is a very important source of such information. This is manifested in 37% of the answers. 45% of the respondents watched the fashion television show titled "Projekt Runway" and 13% of them – "Projektanci na start". What was also popular was "Top model" television show. Thanks to such broadcasts, it is possible to find out about certain fashion trends and see how young designers work. 36% of the respondents indicated the press but these are not always magazines strictly related to fashion. 55% of the respondents read such magazines. These are primarily "Twój Styl" (27%) and "Elle" (25%), which are both glossy magazines, which present other topics and not only fashion. The next places were occupied by the magazines, which focus mostly on fashion: "Avanti" (16%) and "Bazar" (10%).

In the questionnaire survey, the respondents were also asked to indicate the most reliable source of information when choosing fashion fairs/fashion-related events. This is presented in Figure 3.

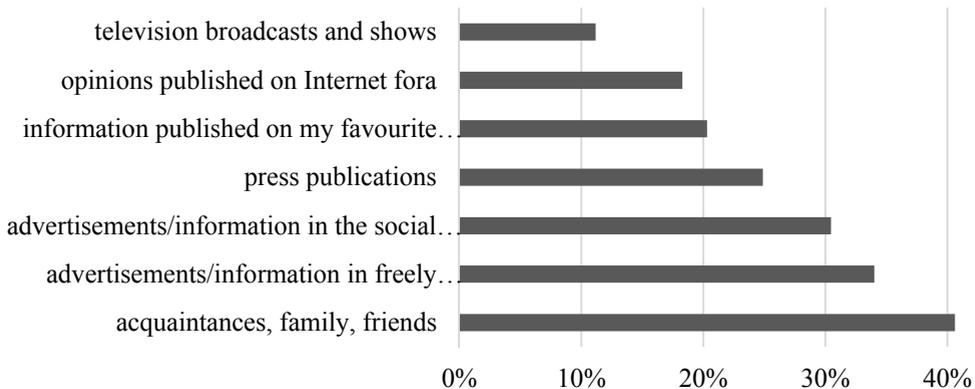


Figure 3. The most reliable sources of information used in the selection of fashion world events (maximum three answers could be provided).

Source: The authors' own study based on their research

The most reliable source of information turned out to be whispered marketing – acquaintances, family and friends (41% of the answers). The respondents also claimed that as far as the information about such events is concerned, the reliable sources are the advertisements published in different media. Also press publications are of importance.

The idea and the use of various sources, which aim at reaching the audience, are very important. The unconventional example of such activities was the city game prepared by H&M brand and Lubię to agency. By means of the mobile application – Snapchat, it was possible to obtain the last tickets for “Boiler Room” events in Warsaw and Cracow. In order to take part in the game, the respondents had to add HMxBR account to those observed ones on Snapchat (the application, which is characterised by the fact that it deletes the photos and videos soon after they are displayed). The tickets were hidden in selected M&M stores in Cracow and Warsaw. The players had to find the store and then to run around it to find the tickets. Before that, there was a teasing game on Facebook, during which the players were recruited (Mołęda, 2014). This unconventional campaign was highly popular and the players enthusiastically joined the search for the tickets.

Conclusions and Recommendations

The most essential sources of information for the respondents taking part in the study are the social network websites (e.g. Facebook and Instagram), fashion blogs and the press. However, the mere presence on the Internet is not enough. At present, more and more frequently the forms of multi-directional communication are used. The fair organisers and designers should build communities around their events. Having such emotionally attached communities is a real chance. Their members exchange opinions,

generate new ideas and convey much information. They are also more credible. More and more people declare their membership of Internet communities and – according to the pilot studies – 85% of them visit such social network websites at least once a day. Similarly, more and more Internet users read blogs, written mostly by people who are considered authorities and by famous people, with whom the users do not contact personally. What is also of interest is the television broadcasts related to fashion, as exemplified by “Projekt Runway”.

A good way of communicating fashion events may also be the Internet video, for example, YouTube, whose forms are continually evolving. A video clip can be an expression and in some cases it can even replace the traditional text comments. The fair organisers or designers can upload a film recorded during the event in a given region in order to encourage others to take active part in the next such events. The use of multimedia on the Internet in contact with the users translates into the transition from the push mechanisms to the pull mechanisms. In other words, the value of reaching a given user increases.

Other, less conventional, activities can also be utilised to draw people’s attention to certain events. For example, guerrilla marketing can be used. It involves the unconventional promotional activities of a very low budget often carried out in such a way that the target audience is unaware of the fact that it has been subjected to such activities. Guerrilla marketing is based mostly on the knowledge of human psychology. The basis investment here is not money but time, energy, creativity and focus on perfecting one offer instead of diversifying it. It should also be remembered that even the best offer “will not sell itself” if the information about it is not conveyed to the interested recipients. That is why proper marketing communication is of such great importance. Its essence is commitment and ingenuity. An interesting form of communication is also sense marketing – experiential marketing. Its strength lies in the influence on many senses of the potential customer. This aims at making the customer more involved and attached to the brand. Focus of the marketing activities on creating satisfying impressions and experiences results from the fact that the fashion fair visitor looks not only for the cognitive and utilitarian values but also for the hedonistic, aesthetic and spiritual ones. The customer would like to have an opportunity to talk to designers, to exchange the views with them or to participate in workshops. We should also not forget about whispered marketing because acquaintances, family or friends are the most reliable source of information, as claimed by the respondents.

Thus, not always is a high budget for marketing communication needed. The most important are the idea, determination and activity integration.

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MANAGEMENT OF HIGHER EDUCATION INSTITUTIONS: SEARCHING FOR THE WAYS TO GAIN COMPETITIVE ADVANTAGE

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Abstract

The paper aims to discuss the issues relating to the management of modern higher education institutions and provide a detailed analysis of various strategic initiatives that have to be taken across the university in the framework of an overall action plan for accomplishing competitive advantage. The methodology of the paper is based on: 1) the theoretical literature analysis within the management discipline; 2) analysis of the official OECD and EU documents related to enhancing the performance and international attractiveness of modern higher education institutions; 3) the author's own experience in higher education as a head of a university department. The results of the analysis performed in the paper allow the author to conclude that contemporary universities, being complicated multidimensional and dynamic organizations, need a holistic approach to be applied in the context of competitive strategy development and implementation.

JEL code: M19

Keywords: higher education, management, strategy, holistic approach

Introduction

Education and research are now considered to be significant elements in the formation of the global environment (Higher Education to 2030, 2009:19). The tertiary education systems of many countries have experienced fast growth over the last decade; they are now facing new pressures as the result of globalising economy and labour market (Huisman *et al.*, 2007). Rapid expansion of higher education is stimulated by various factors (Watson, 2000: 9–10): political push factors (e.g. economic competitiveness and social prestige) and social pull factors (e.g. recognition of higher education credentials). The main trends for the future of higher education are associated with providing graduates with the skills and competences needed to support their competitiveness in the knowledge-based global economy (Higher Education to 2030, 2009:13).

Contemporary European universities are supposed to make their contribution to delivering the European Union's strategy to maintain economic growth; in turn, the EU

focuses on supporting their modernization policies (The European Union explained: Europe 2020: Europe's Growth Strategy, 2013: 9). Higher education in modern Europe plays a dominant role in individual and social progress by providing the highly skilled human capital to support knowledge-based economies (COM (2013) 499 final, 2013: 2).

A large number of European Union's documents emphasise the importance of providing the EU citizens with broad access to first-quality higher education within the framework of creating the European Higher Education Area: Bologna Declaration, 1999; Berlin Communiqué, 2003; COM (2003) 58 final, 2003; Standards and Guidelines for Quality Assurance in the European Higher Education Area, 2005; London Communiqué, 2007; The European Higher Education Area in 2012: Bologna Process Implementation Report, 2012; Report to the European Commission on Improving the Quality of Teaching and Learning in Europe's Higher Education Institutions, 2013). In this context, the universities have to make an increasing number of strategic choices, by focusing on their strengths and investing in the new emerging initiatives.

The paper aims to: 1) discuss some issues relating to the management of modern higher education institutions in order to gain advantage over their competitors; 2) provide a detailed analysis of various strategic initiatives that have to be taken across a university in the framework of an overall action plan for accomplishing competitive advantage.

Methodology

The methodology of the paper is based on: 1) the theoretical literature analysis within the management discipline; 2) analysis of the official OECD and EU documents related to enhancing the performance and international attractiveness of modern higher education institutions; 3) the author's own experience in higher education as a head of a university department. In the paper, it is argued that contemporary universities, being complicated multidimensional and dynamic organizations, need an integrated (holistic) approach to be applied in the context of strategy making and implementation. To illustrate this approach, the author discusses multiple strategic initiatives, which can be realized in different subdivisions of a university through the use of blended tangible, non-tangible and semi-tangible resources, representing both the material and intellectual potential of a university.

Modern University Management: Using a Holistic Approach

Modern organizations are working in a volatile environment; they are now facing the challenge of remaining competitive (Samson & Daft, 2012: 86), educational organizations being no exception. Higher education is intensely involved in global transformations; it is "swept up in global marketization" (Higher Education to 2030, 2009: 19). To be effective in the international environment means being ready to change, so all policies

and institutional practices should be reconsidered in terms of the global challenge (Higher Education to 2030, 2009: 54), as well as in terms of the emerging development opportunities. Table 1 summarizes the main trends for the future of higher education and the related development opportunities comprising the strategic context of the management of modern universities.

Table 2

**Main Trends for the Future of Higher Education
and the Related Development Opportunities**

Main trends for the future of higher education (Source: Higher Education to 2030: Globalisation, OECD, 2009)	Development opportunities for modern universities
Intensified cross-border higher education and mobility of students	Exporting higher education services, thereby attracting alternative financial resources
Increased international academic research	Attracting international funding for university research
Increased global impact of higher education and the growth of their scientific output	Attracting more young talents and outstanding researchers from all over the world
Increased private higher education provision and financing worldwide	Satisfying the increased demand for higher education
Growth of market-like tools in higher education management through the use of performance-based and competitive allocation of funds	Developing a set of integrated management practices used to provide quality enhancement of a university in the customer-driven education context
Increased focus on quality assurance in response to the growing importance of private and cross-border higher education, institutional rankings and the quest for accountability	Developing quality assurance systems that set the parameters for the review of both undergraduate and postgraduate university programmes

As seen from the Table above, modern trends in higher education may stimulate further improvement of contemporary higher education institutions, while posing new challenges to higher education managers in relation to developing competitive strategies aimed at increasing academic and research excellence. Consequently, various factors make education managers think and plan more strategically.

Now let's take a closer look at the role of strategic management in modern universities. The growing importance of strategic management in the area of higher education is determined by the increasingly turbulent environment contemporary universities are operating in and by the effectiveness of conventional management methods (Alfred, 2006: 10). According to Jeffs (2008: 13), the role of strategic management in present-day organizations is vital, as it provides a structured process for analysis through utilizing some tools to investigate the internal and external environment; it also offers a logical

approach to strategic decision-making. To provide their organization with a competitive advantage, the managers select, develop and implement a set of strategies (Hill & Jones, 2012: 4). Strategy can be defined as “a coordinated set of commitments and actions designed to explore core competencies” (Hitt *et al.*, 2007: 4); it can be also described as a complex process of determining a set of actions to be performed for accomplishing the organization’s purpose (Sadler, 2003: 24). Educational management, being related to the operation of educational institutions, is concerned with the purpose and aims of education (Bush, 2011: 1), which are intangible (Griffin, 2012: 18). The aims of educational organizations are multidimensional – social, cultural, moral, academic, etc. (Fiddler, 2002: 104). These wide-ranging objectives are set by the stakeholders of academic institutions; they are closely related to maintaining and enhancing competitiveness of an educational organization (Bush, 2011: 18). Key activities of a school, college or university are focused on achieving these objectives; they may embrace teaching, research, economic and social activities, etc. Consequently, management of universities may include different aspects – financial, administrative, operations, etc. (Griffin, 2012: 10). The overall management of the integrated educational environment occurs in several functional areas of an educational organization; it is directed at achieving the organization’s synergy necessary for accomplishing education-specific organizational goals (Stukalina, 2014: 83).

Strategy is always aimed at producing superior performance – achieving competitive advantage (Hill & Jones, 2012: 4). In education, the way a university is managed may have a critical impact on the progress of disciplines (Shattock, 2003: 24), so academic excellence and competitive advantage should accompany each other. In the framework of developing effective strategies aimed at improving the higher education establishments, education managers perform the strategic analysis of university’s external and internal environment; they make various decisions at different levels and in a number of social situations. Strategic decision-making is aimed at matching the internal capabilities with the external environment by selecting the best possible alternative (Bhushan & Rai, 2004: 5). The internal capabilities of a university are based on a variety of organizational resources. Being heterogeneous in nature, these internal resources embrace the integrated non-linear multi-level educational environment that embodies an intellectual community of people: academicians, administration, students (Stukalina, 2010/1: 77). The resources include tangible (non-human), non-tangible (human) and semi-tangible (informational) resources symbolizing the intellectual assets of a higher education institution (Stukalina, 2008: 202). The above resources are associated with the four central subsystems of educational environment (Stukalina, 2010/2: 354): 1) the physical and technological environment, including university services and facilities (buildings, lecture rooms and lecture halls, laboratories, libraries, etc.); 2) the instructional environment, including regulative documents, teaching materials, online instructional materials, etc.; 3) the executive environment that is related to conducting lessons and

delivering lectures; 4) the psychological environment that is related to the psychological atmosphere created in the study process.

Thus, taking cognizance of the complex nature of a modern higher education institution, management of the integrated educational environment of a university should be approached from a holistic viewpoint. As stated by Ackermann & Eden (2011: 6), strategic management is coherent only when it “can be recognized as a holistic phenomenon”. So, strategic management of a contemporary university should be regarded as an integrating mechanism involving integrated processes and policies for accomplishing the best institutional outcomes (Shattock, 2003: 25).

The results of the empirical research performed by Nag *et al.* (2007: 952) show that strategic management acts as an intellectual entity, which can succeed by encouraging the simultaneous pursuit of many research orientations that involves actors who come from different disciplinary and philosophical areas; it is also characterized by inherent pluralism allowing managers to develop their policies without “being constrained by a dominant theoretical or methodological strait-jacket”. The results of this study also indicate that the success of strategic management suggests an alternative vision of academic communities as flexible and dynamic bodies held together by a common fundamental core (Ibid., p. 952).

As can be seen from the above, the holistic approach to the management of modern university presupposes flexibility and a high level of collaboration among departments, enabling the educational organization to respond to the emerging threats and opportunities. In this respect, university managers may design and implement a few competitive strategies, which are focused on several aspects related to quality improvement (Moldovan, 2012: 1459) based on their research orientation. Different strategies are initiated at different levels and in various functional units of a higher education institution.

Main Strategic Issues Related to University-Specific Strategic Goals

In consideration of the foregoing, we assume that strategies in a higher education institution may be originated in the following spheres (Stukalina, 2014: 83):

- 1) management of tangible resources;
- 2) management of non-tangible resources;
- 3) management of semi-tangible resources.

Let us now consider the hierarchy of strategy-making in a modern university with regard to the complicated nature of the integrated educational environment. The strategy-making pyramid in a traditional business organization is made up of several levels: corporate strategy relating to an overall managerial action plan; business strategy

comprising a managerial action plan for a specific line of business; functional strategy involving a managerial action plan for dealing with a functional activity within a business; operating strategy covering a managerial action plan for handling core organizational units (Thompson & Strickland, 1992: 40–41). The above theory can be considered relevant to modern universities (Stukalina, 2014: 84), provided that the achieving of education-specific organizational goals requires the use of a specific approach to developing strategies aimed at accomplishing competitive advantage and academic excellence.

Strategy deals with the future of an educational organization; strategic planning must contribute to school improvement (Fiddler, 2002: 75). This, in turn, must lead to quality enhancement of the entire educational organization. Providing qualitative changes in the integrated educational environment is of primary importance for successful performance of an educational organization (Stukalina, 2012: 85). These changes are supposed to maintain and further develop the academic strengths of the university, which are supported by a variety of institutional resources (tangible, non-tangible, semi-tangible), the resources being aimed at achieving educational (research) excellence and competitive advantage in a turbulent external environment.

In order to generate and allocate a set of resources needed to support qualitative changes in the educational environment, it is necessary to define university-specific strategic goals. We suggest categorizing these goals as corporate-level strategic goals and functional area-specific strategic goals. Corporate-level strategic goals focus on the entire educational organization, while functional area-specific strategic goals are set under the corporate level strategy with regard to the activities taking place at different organizational levels (Table 2).

Table 2

Main Strategic Issues Related to University-Specific Strategic Goals

Strategic Goal Areas	Strategic Issues (example)
Corporate-level strategic goals	Enhancing university overall excellence in order to be ranked among the top world universities
Functional area-specific strategic goals 1) Administrative affairs (university services and facilities) 2) Academic affairs (education) 3) Research 4) Academic staff	1) Developing efficient service structures and supporting infrastructure 2) Providing students with a high-quality education by improving curricular and integrating theory and knowledge with professional practice 3) Enhancing excellence in research and innovation through strengthening university research cooperation with partner universities and attracting financial support from EU Structural Funds 4) Recruiting and retaining first-rate academics and teachers

Source: Stukalina (2014: 88)

According to Table 2, strategic goals are closely linked to strategic issues. In view of the fact that the strategic issues are interdependent, it is vital to understand how they influence each other; this can be done by creating a causal map of issues (Ackerman & Eden, 2011: 48). We suppose that university areas to be interconnected in the framework of a causal map of issues are related to: a) administrative affairs; b) academic affairs; c) research; d) university academic staff. Strategic issues are identified in the course of the strategic analysis activity. For this purpose, the managers should regularly perform knowledge-based assessment of the educational environment to cope with its dynamic nature (Stukalina, 2013: 1061).

Causal maps can be drawn separately by education managers in each functional area; later they can be combined to produce a single map that will consolidate various concepts from different maps. The combined map then will be used by senior manager in the course of developing an overall action plan. Example of a causal map is shown in Figure 1. Each rectangular shape represents a strategic issue to be addressed in the framework of an overall action plan (as a concept), and the whole map represents a certain situation (state of affairs).

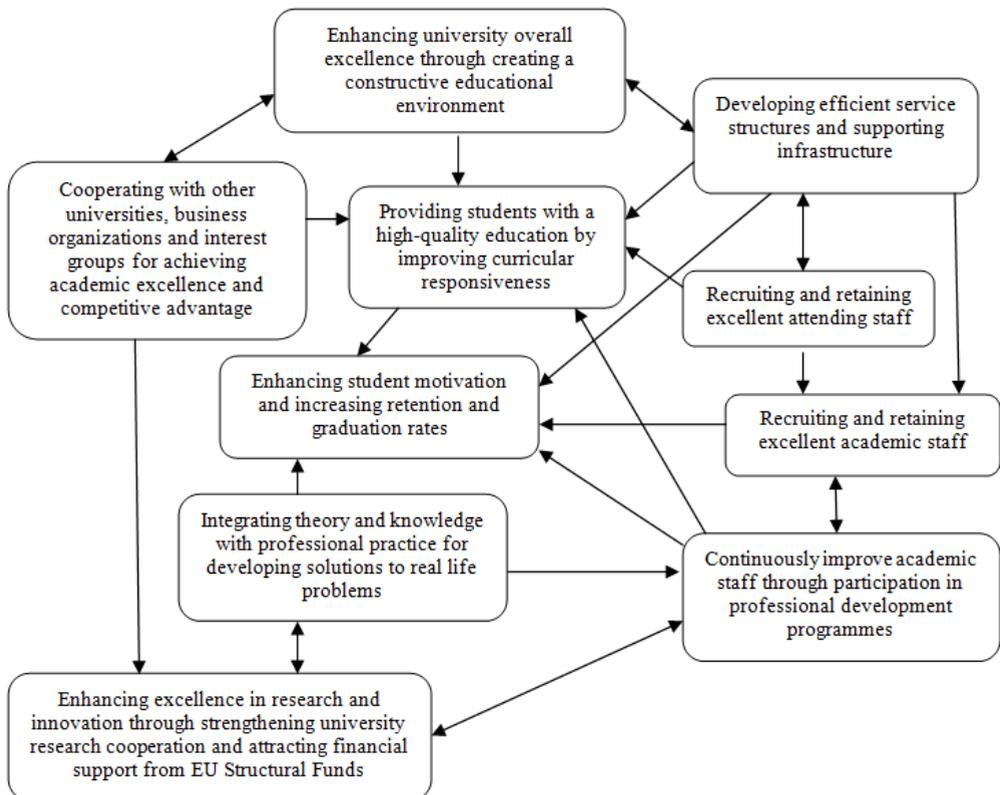


Figure 1. Example of a causal map created for a particular functional area of a university

University-Wide Actions to be Performed in the Framework of an Overall Action Plan

We view the actions taken by managers in the framework of an overall action plan as strategic initiatives that the university managers will develop and implement based on the strategic issues identified in the course of knowledge-based assessment of the educational environment.

The supportive strategic initiatives are implemented in the framework of an overall long-term managerial action plan that involves: a) creating an effective coordination mechanism across functional units of the educational organization; b) creating a number of qualitative and quantitative indicators for systematic knowledge-based assessment of the educational environment. Besides, in the overall plan, each functional area will be supported by a particular action/a set of actions (Table 3).

Table 3

University-Wide Strategic Initiatives to be Performed in the Framework of an Overall Action Plan

Functional area	Action to be Taken (example)
1) University services and facilities	1) Implementing cost-effective university infrastructure improvements, providing ICT-supported education and making university settings safe and attractive for academic and social life
2) Education	2) Creating new programmes to respond to changes in an increasingly competitive global job market that demands transferable skills in the context of lifelong learning
3) Research	3) Increasing research opportunities by strengthening support for research grants and international collaboration, by developing products in partnership with local companies and designing discipline-specific web portals
4) Academic staff	4) Implementing consistent academic staff recruitment procedures and creating a new university recruiting website

Management of the organizational facilities is aimed at creating an environment conducive to performing basic organizational activities (Atkin & Brooks, 2009: 3). Thus, developing a wide-ranging strategic plan for the physical and technological expansion of the university is necessary to provide sustainability of the educational process. Making university settings safe and attractive for academic and social life would enhance student satisfaction and motivation, and hence enrolment, retention and graduate rates. Cost-effective university infrastructure improvements are directed at

making research and education infrastructure more responsive to the needs of both academic staff and students. It should be noted that academic and research excellence is based on excellence of university services and facilities.

In the integrated educational environment, facilities' management goes hand-in-hand with other management practices employed in the framework of an overall action plan, including: a) human resource management (using a set of procedures for recruiting and maintaining people that provide adequate technical and administrative support to students and teachers); b) information management (dealing with intellectual capital of the educational organization that is embodied in the organizational databases in the form of informational resources that are available on the university's intranet); c) financial management; d) quality management, etc.

According to Shattock (2003: 25), strategic management of a university can be characterized as a holistic process that embraces interconnecting components and incorporate different policies, so it is crucial to harmonize the different components of university management; it is not possible to concentrate on academic success, excluding a concern about other aspects. "Good teaching, good research, good academic support services, and well-managed academic and social environment" – all these factors are supposed to contribute to successful education (Shattock, 2003: ix).

So, strategic initiatives aimed at achieving competitive advantage (and correspondingly, academic and research excellence) are realized in different departments of a modern university throughout the integrated educational environment, a set of combined management practices supporting the competitive strategy implementation.

Conclusions

The analysis of the relevant literature and documents has allowed the author to explore the research topic from a holistic perspective, drawing the following conclusions.

- 1) Modern universities, being complicated multidimensional and dynamic organizations, need an integrated (holistic) approach to be applied in the framework of developing a strategy aimed at achieving competitive advantage in the turbulent global environment.
- 2) In the process of performing strategic analysis, strategic goals are defined. Education-specific organizational goals are closely related to strategic issues that university managers face.
- 3) Strategic issues can be translated into causal maps. In the paper, it has been argued that university areas to be interconnected in the framework of a causal map of issues are related to administrative affairs (university services and facilities), academic affairs (education), research and academic staff.
- 4) Based on the strategic issues identified in the course of strategic analysis, education managers develop and implement a set of corresponding strategic initiatives.

- 5) Multiple strategic initiatives have to be developed in the framework of an overall strategic action plan; they are implemented at different levels of a university; in the process, education managers use blended tangible, non-tangible and semi-tangible resources representing both the material and intellectual potential of a university.

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CURRENT TRENDS AND MANAGEMENT CHALLENGES OF DEVELOPING THE LIVING LABS

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Abstract

In years of extensive discussions on how to improve business environment, build knowledge-based societies and raise competitiveness, the concept ‘living labs’ – open innovation intermediaries, applying to demand-driven and user-centric approaches, is one of the most promising in the innovation lifecycle. The last one embraces various processes in creating ideas, design, development, validation and transfer of new products, services or technology into practice, and is implicated in living labs by user-driven innovation processes, decreasing investment risks and assuring greater efficiency and sustainability. The shift to communities as co-creators of innovations is considered from the point of view of knowledge management, smart specialization and sustainable development goals. The paper investigates the establishment and distribution of living labs under conditions of open international markets and fast development of ICT as a type of pro-innovation structures, which have been expanding worldwide over recent years but still need effective framework in management. The study examines the members’ profiles of the European Network of Living Labs (ENoLL) focusing on different aspects of organization and functioning and seeking a common description and general characteristics. Some very important development trends and challenges are discussed in the light of providing effective management and sustainability. Recommendations are given regarding the principles of functioning and internal rules of management, by paying special attention to planning and monitoring.

JEL code: M21.

Keywords: innovation, knowledge-based economy, demand-driven approach, competitiveness

Introduction

Under conditions of extensive discussion (at both international and national level) about sustainable economic, social, cultural and ecological development, the issues relating to smart specialization and innovation are scrutinized in many strategic documents, giving just priorities and directions, which should be implemented and put into practice in order to build knowledge-based economies with high level of competitiveness to be achieved. There are many implications regarding the nature of innovation, associated mainly with the approach accepted in a number of funding programs and procedures. The current study accepts the fact that innovations could have (or unite) different aspects: development or improvement of a product, a process, marketing or organization that creates market advantages and increases competitiveness. In general, there are two types of innovations (see Table 1). They determine, which users are involved and how they are involved (Stahlbrost *et al.*, 2010).

Table 1

General Types of Innovation

Radical Innovation	Incremental Innovation
Significant change, and often opens up new markets and potential applications	Relatively minor changes to an existing product
Products that are completely new to the company or new to the market, products based on new technologies and new ventures unrelated to existing business operations	Related to the company's current products and businesses, and generally take the form of product modifications, upgrades and line extensions

Source: Stahlbrost *et al.*, 2010

The literature and research provide a number of definitions of the concept 'living labs', some of them are specifically oriented towards the sector under discussion, and mainly represent the living labs in information and communication technology (ICT). However, some general conclusions could be drawn about the essence of this approach focusing on the notion that "living labs are open innovation infrastructures shared by several stakeholders" (Garcia-Guzman *et al.*, 2013). Discussing user-driven innovations, living labs are accepted to promote an alternative innovation paradigm: the end-user's role shifts from research object to a pro-active position where user communities are co-creators of product and service innovations (Wolfert *et al.*, 2010). Schuurman *et al.* (2011) state that the concept of living labs is linked to the notion 'open innovation' regarding user research and concepts from the social shaping of technology. Leven & Holstrom (2008) examine how this approach can help organizations utilize important resources in open innovation systems and guide universities, as the main drivers in research and development, to become key players in open innovation systems and improve their environments for research and education. There is the following

definition: living labs represent a user-centric, open innovation approach for sensing, prototyping, validating and refining complex solutions in multiple and evolving real life contexts (Wolfert *et al.*, 2010).

Living labs are usually led by local governments or private firms with the aim of driving innovation or new product development and they often have predefined project boundaries, outcomes, stakeholders and targets (Cosgrave, Arbuthnot, & Tryfonas, 2013). The roles of living labs' stakeholders could differ but could be summarized on the basis of the aspects of research and development, funding and collaboration (see Table 2) which represent the essence of their functioning: private-public-community partnership for open innovation driven by end-users, considering the notion that user-driven innovations are a key competitive factor for organizations, by identifying users' needs and incorporating this knowledge in products and services (Stahlbrost *et al.*, 2010).

Table 2

Roles of Living Labs' Stakeholders

Key activities	Universities	Private Sector	Public Sector	Users
Research	Initial research of the technical infrastructure / implementation of the living lab	Collaboration with universities and government regarding research required	Collaboration with universities and private sector regarding research required	Collaboration in design, development, experimentation, validation, commercialization
Development	Development of services/ products to be tested on the living lab	Validation and commercialization of product/ service	Collaboration with universities and private sector	Ideas Implementation Feedback
Funding	Collaboration with government regarding funding	Collaboration with government regarding funding of projects	Initial funding to establish living lab infrastructure On-going funding to stimulate innovation and testing on the living lab	Indirectly involved through qualitative long-term impacts

Source: Cosgrave, Arbuthnot, & Tryfonas, 2013 with modifications

The problems of collaboration, communication, coordination and management are addressed in the light of key players in establishment and functioning and the key role of end-users. In living labs, the innovation from start to finish is embedded in the real-life context of users, and all organizations involved in a network are collaborating from the start of innovation (Wolfert *et al.*, 2010).

The advantages of networking are recognized and the European Network of Living Labs (ENoLL) (involving living labs from all over the world) is established. It makes an attempt to unite the structures and offers the "Open Living Labs Community" the

following services: communication and promotion, project development, brokering, policy and governance, learning and education. The EU-funded projects are “strategically important” for the network. They concern such thematic fields as smart cities, future internet, cross-border and cross-sectoral collaboration, user-centred design, education, creative industries etc. According to definition by the European Network of Living Labs (ENoLL): “a living lab is a real-life test and experimentation environment where users and producers co-create innovations”, and activities are summarized as co-creation, exploration, experimentation and evaluation (see Table 3).

Table 3

Activities in Living Labs (According to ENoLL)

Co-creation: co-design by users and producers
Exploration: discovering emerging usages, behaviors and market opportunities
Experimentation: implementing live scenarios within communities of users
Evaluation: assessment of concepts, products and services according to socio-ergonomic, socio-cognitive and socio-economic criteria

The activities show that, in the digital era, the establishment of living labs considers different aspects: physical, technical, social, organizational, etc. More specifically, they should ensure resource management (human, capital, material, technology, information) that has to be transformed into results according to the goals and depends on inner and outer environment. The approach is a new innovation strategy decreasing certain production risks and increasing probabilities of success on the market. It unites two parts: 1) the process of product development with active participation of users, and 2) management – planning, organization, evaluation, control of the development process and all the activities in the living labs connected directly or indirectly. The current study devotes attention to the second one, by examining the main factors and providing general conclusions that could be applied to different living labs regardless of the fact in which sector or what goals they are working on.

Methodology

The study examines the information provided on the website of the European Network of Living Labs (ENoLL): <http://www.openlivinglabs.eu/>. ENoLL is an international federation founded in November 2006. Following several waves of enrollment, now it has 355 members (299 in Europe, 56 in the rest of world). Making comparative analyses of the types of living labs, the study examines the information in the application forms by the network members and the information provided on the ENoLL’s website, embracing different aspects of organization and functioning of those pro-innovation structures. Thereby, by seeking a common description and general characteristics, it provides some general conclusions about current trends in development and management.

Results and Discussion

The application form for ENoLL, the information from which is uploaded on the site, contains the following points: basic facts, membership motivation, description and characteristics, organization, openness, resources, users and reality, value, directions and plans for the future, thus mostly embracing questions associated with development and management. ENoLL's website provides very useful information but there is still much information to be added about the members. It provides data about distribution of accredited living labs in the world (see Figure 1).

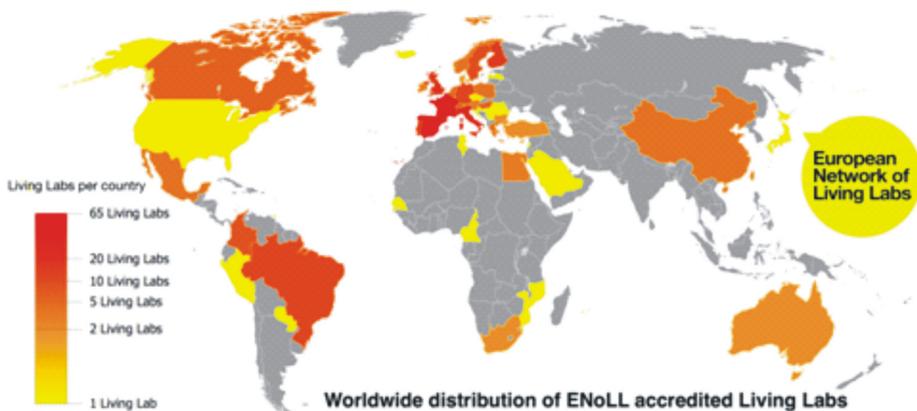


Figure 1. ENoLL accredited living labs

Source: <http://www.openlivinglabs.eu/>

There is a need for databases, which provide structured information, by focusing on the field of work and the use of ICTs. Now it is difficult to say how many living labs work in agriculture or tourism, for example. More emphasis should be put on the projects implemented – the information has to be clear and not overloaded, organized in fields common to all. The structuring of information could be useful to facilitate comparisons and analyses.

However, the collected data give an insight into the organization and management of living labs through the investigation of their activities as examples of good practices. Comparative analyses of the types of living labs enrolled in the European Network of Living Labs (ENoLL) show that living labs embrace a wide range of spheres. Starting from some broader aspects like the provision of open innovation environment, i.e. more general in terms of encouraging and facilitating open and user-driven innovations, they vary greatly in specific fields of work: ICT, industry, agriculture, food, tourism, governance, arts, and specific goals connected to rural development, social development, well-being,

marginalized groups, health issues, building society, smart cities, smart community, smart life, etc. working on ICT applications, urban or rural, social or educational innovations etc. Some of them are networks of living labs.

The analyses show that the latest trends in development of living labs are focused on the facilitation of regional smart specialization providing infrastructure, methods and tools of innovation, user involvement in the innovation process and new approaches in management. Management challenges are connected to the following principles of functioning (see Table 4): openness, flexibility, consistency, reality, user participation, motivation, value added, sustainability, monitoring, which could provide advantages if implemented properly or have negative impacts if they are just stated and not put into practice. Value added is a principle in the focus because of the sought synergy effects. Furthermore, assuring sustainability should be the basis of all processes, and monitoring is linked to the whole set of principles.

Table 4

Principles of Functioning and Management of Living Labs

Openness	Flexibility	Added value	Monitoring
User participation	Consistency		
Motivation	Reality		
Sustainability			

Living labs are social systems having goals. Living labs embrace different kinds of interacting and interrelated organizations combining members’ independence with activities in living labs where information, communication and coordination are the key parts. Management of living labs has a purposeful impact on all the processes for achieving their specific goals – connected to technology, production, investment, social, innovation and market policy, good management, competitiveness, improvement of end results, etc. All participants (business, state, non-governmental, research and development organizations and users) are included in achieving goals, thus clear and fair rules should be accepted for good organization and effective management. General management (planning and control), management of operations, marketing management, finance management, human resources management, technology and innovation management, resources management, etc. are all characterized by time framework and consecutive stages embracing: goals, planning (activities and resources for goals’ implementation), organizing (organizational conditions for implementation of plan, i.e. goals), coordination, motivation, controlling (comparing planned to real state-of-art and removing disparities). The connections and collaboration between stakeholders is of crucial significance because it predetermines effectiveness and success at every stage of planning, design, development, evaluation or commercialization (see Figure 2).

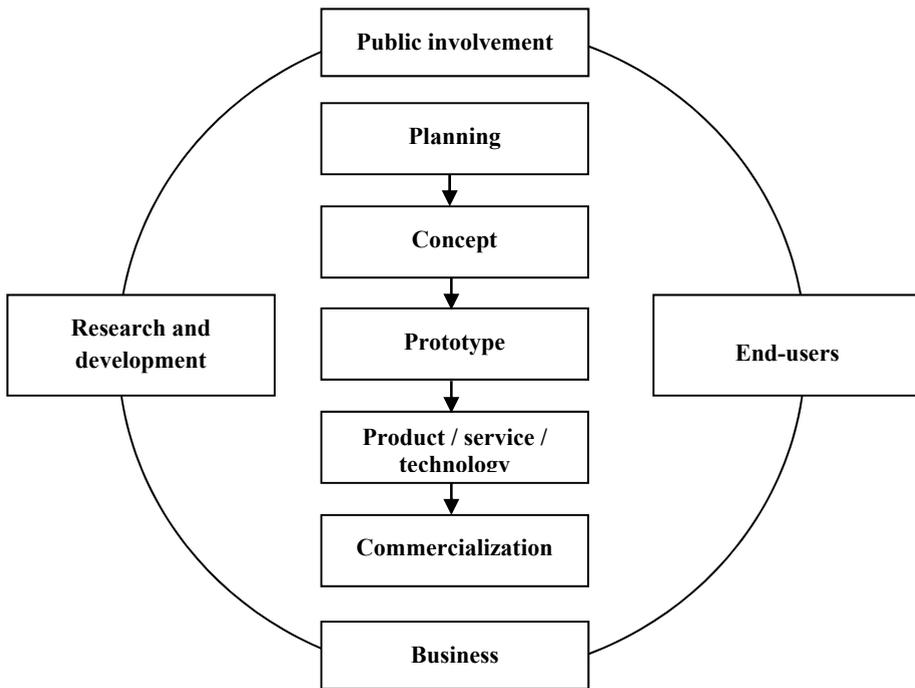


Figure 2. Interconnectedness between processes in living labs and collaboration of stakeholders

Inner and outer factors having impacts on living labs' functioning are of different nature and should be analysed (see Table 5) by: identifying factors, assessing the impact (positive or negative), management of the impact. Outer environment factors (legislation, institutions, suppliers, users, competitors, technology, economic and political conditions, social and cultural factors, local population, international, etc.) play a crucial role in their establishment and functioning. Inner environment (strategy, structure, goals, tasks, technology, human resources, organizational behavior, etc.) embraces end-users included in the innovation life cycle in the living lab too. Analyses of environment should not aim only at identification of the main factors influencing the activity of living labs, their directions and strength, but also the coping capabilities. Examination of social conditions and changes (demographic indicators, culture, ethnic and psychological characteristics), the main factors and trends in macroeconomic environment and consumers' income; technological conditions and development, ecological requirements; legislation requirements, international environment is a prerequisite of success.

Table 5

Analyses of Macro and Microenvironment

Macroeconomic environment	Law environment
Social and cultural environment	Political environment
Knowledge and technological environment	Competitive environment
Business organizations' profile	

Discussing the management challenges to living labs, the influencing factors could be divided into three main groups (Table 6), going more in depth in the management at different levels.

Table 6

Factors with the Impact on Management of Living Labs

Organizational and Managerial	Material and Technical	Personal, Psychological and Social
Managerial competencies	Land	Motives
Planning	Facilities	Social experience
Organization	Equipment	Psychological environment
Control	Information	Social environment
Processing information	Technology	Culture and traditions
Motivation	Production resources	Interactions and communications
Good practices exchange		

The process “idea-concept-development-launch” is related to the available scientific and technological knowledge, technological research capabilities, enterprises’ innovation capabilities, as well as to the national innovation systems, smart specialization policies and strategies aimed at building a knowledge-based economy, raising competitiveness and assuring sustainable development. All this is closely connected to research and technological development in universities and research centers and capacity building for science and technology. Some of the most important general success and risk factors in living labs’ management (see Table 7) show that the openness and users’ involvement are at also prerequisites and threats to success. Factors in living labs’ management could be generally scrutinized as success and risk but sometimes some of them could fall into both groups (e.g. users driven innovation and real life environment). Furthermore there are strong interconnections with coordination and cooperation activities, which are not unilateral. Another important issue is motivation influenced by a number of factors and processes but underpinned by knowledge society and specifically affected by social and cultural differences.

Table 7

Success and Risk Factors in Living Labs' Management

Success Factors	Risk Factors	Coordination
Users driven innovation		
Real life environment		Social and cultural differences
Knowledge society	<i>Motivation</i>	

The need for strategic management is very prominent because of the high level of dynamics and complexity in social, political and economic processes. There is also the need for a clear vision under conditions of fast technology development and limited resources. Strategic management aspects: long-term goals, competitive capabilities and reactions, decision making, managerial tasks, expected benefits, impose the need for good coordination and control mechanisms.

Business planning (see Figure 3) as a process targeted to analyze the current state-of-art, formulation of strategy and description of expected outcomes should include the following important points: summary, markets, products, competition, marketing strategy, production process, management, risks, financing, substantiating the effectiveness of investments in innovations.

In order to ensure sustainability of functioning, the management risks should be identified, assessed and managed – the processes closely connected to planning, communication and coordination. The general risks identified in the study are technical, environmental, organizational and managerial. They are not only interrelated – they interact with each other and could have synergistic effects that should also be foreseen (see Figure 3).

Risk management is important because failures to handle risks have a direct impact on the functioning and assuring sustainability of living labs. Risk management should be applied to entire organization, to the specific functions or activities, or at the level of departments and sections, in order to take the advantages of the opportunities and to minimize probability of failures. Active involvement of users and participation of many stakeholders along with advantages in terms of usefulness of final results hide a number of organization and managerial risks, especially regarding coordination, communication and motivation.

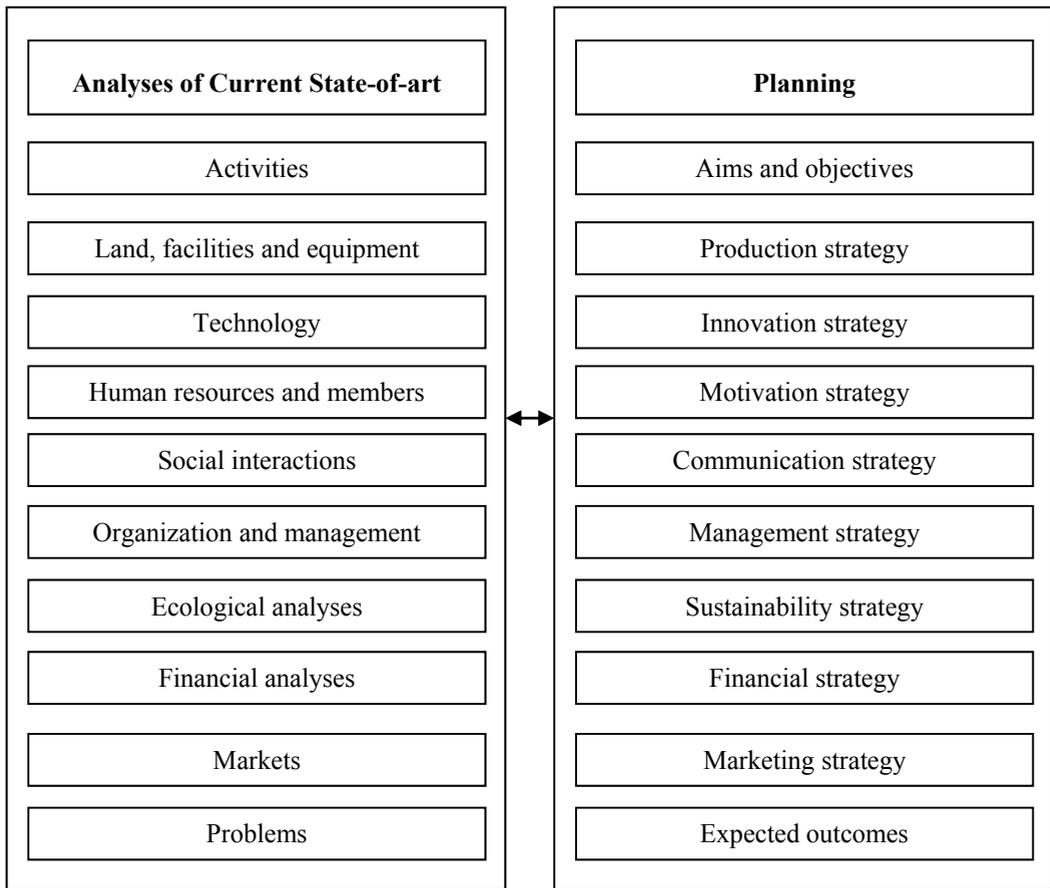


Figure 3. Business planning in living labs

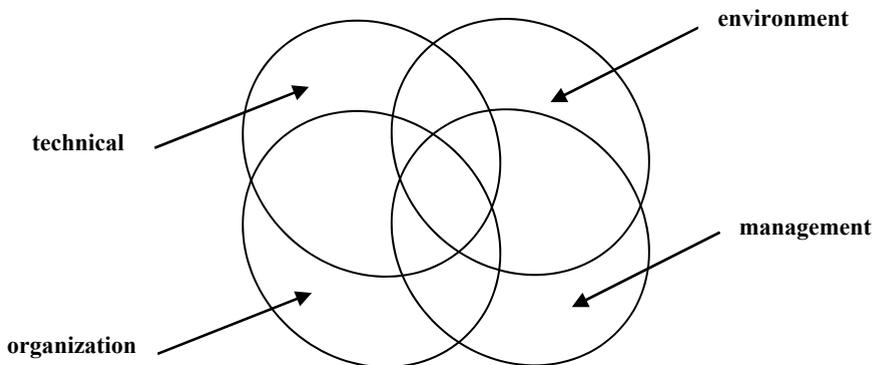


Figure 4. Interrelations and interactions between different types of risks

Conclusions

The shift from product-based to user-centered economy poses many questions about innovations and their connections to interaction among various sectors in assuring knowledge management, competitiveness and flexibility. Living labs as intermediaries of open innovations rely on active involvement of users and feedback into the innovation process but are strongly dependent on technological factors and the environment as a whole. Current study summarizes the general principles in their functioning and management focused on sustainable development. The complex interactions of functioning and management of living labs are summarized in general and specific recommendations with the emphasis on planning and monitoring underlying the importance of risk management and substantiated decisions aiming at assurance of sustainability.

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PLANNING LATVIAN NATIONAL DEVELOPMENT

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Abstract

This study was prepared as an empirical report for development managers and planners. It described the plan's objectives, priorities and structures, as well as the parties involved in the planning processes. The authors made references to previous Latvian development plans and the innovation initiatives of the EU. The operational plan for 2014–2020 was approved by the Cabinet of Ministers on 10 February 2015. The findings and changes in private and public policies, development issues were discussed. The optimistic plan was changed from 7 to 17 years.

JEL code: O1

Keywords: economic orientation to innovation, national development, European Union, Latvia

Introduction and Antecedents

The Latvian nation-state emerged late at the conclusion of World War I. At that time it was short of skilled human resources. There were no investment funds available. Unemployment was also high. Fundamental changes were necessary.

Given the profound nature of changes in Latvian development the authors felt their contribution on the strengths and weaknesses of the planning product observed. The authors intended to write a brief case report to the development managers and the general public. For example, they were not interested in counting enrolment changes by grade. Rather, they were interested in budget surpluses or shortfalls and their effect on priorities. Unexpected changes in education priorities and budget allocations report were found that could not be used by the planners. The authors noted the subordination of the planning process to current budget planning itself.

These were the authors' own guidelines. In practice, as in almost all plans, they saw unexpected events. However, this report was useful enough to help improve the future planning in Latvia, enough to benefit the public.

First, ruled for hundreds of years by allies or conquerors, including Danes, Germans, Lithuanians, Poles and Swedes, the Latvian territories were acquired by imperial Russia between 1721 and 1795 to be ruled in three distinctly separate provincial units. Paradoxically, the subjugated tribes in Livonia merged into unique Latvian people only under the rule of the Russian empire and mostly Baltic German overlords.

To us, much of what is called development was composed of great social and other changes. Great, because they were run by qualified leaders whose time had come. As Rein Taagepera, Professor of social sciences in Tartu and in Irwine pointed out, the accomplishments made them stand out amid others in the area. The first was bishop Albert of Bremen who founded the German city of Riga and aggregated warring tribes in a medieval crusader state named for St. Mary. The second was pastor J. Ernst Glueck, an avid translator of the Bible and other holy scriptures. His work reinforced a movement of intensive reading and learning among Estonians and Livonians. The third was Peter the Great, who was also a superb political strategist. He conquered the East Baltic area and modernized the government, strengthened the armed forces and declared Russia an empire in 1721.

The three leaders did not fully succeed by modern standards. Albert's state was weak and its Christianity dubious. Glueck was taken as a war captive to Moscow where he was the pastor of the German Lutheran Church. Peter restored questionable privileges to his allies of the Baltic German nobility. Unfortunately, he also reduced Baltic farmers to heavily exploited and brutally treated underclass serfs who forever resented domination by the lords.

We added Count Sergei Witte to the three. Witte, before he was removed from his top policy-making position by a suspicious emperor, industrialized the Baltic port cities of Riga, Sankt Petersburg and Tallinn. However, his policies later gave rise to class conflicts and warfare. His development policies did include important priorities for foreign investment and trade. However, Witte, unlike Otto von Bismarck, neglected important social issues.

The process of emancipation changed slowly and remained to be major impediment to the growth of Baltic agriculture until after World War I. After a harsh but fair treatment by the Swedish monarchy, the peasants could and would be sold or traded for dogs, horses or other animals. They would be brutally punished for imaginary or real lack of performance in the lords' fields.

It is this exploitation, not innovation and not higher productivity that allowed the newly prominent von Kampehausen family to rebuild thirty estates in an area impoverished by war. This was the time when the patriarch of the Kampenhausens would buy a skilled

carriage artisan and master of a matched team of horses for one hundred silver roubles in Sankt Petersburg. This was the time when their favoured guest, Emperor Alexander I, danced with noble teenagers, discarding a pair of white silken gloves after every dance. This was also the time when Latvian folk memories preserved songs of orphans gnawing on crusts of bread in the dark.

Latvia declared itself an independent state on November 18, 1918. Steered by public policy and the distribution of confiscated estate land to become counties dominated by small family farms, they neglected engineering and manufacturing industries. This development was reversed under fifty years of Soviet occupation. When the Soviet Union collapsed, Latvia started a new round of nation-state building, adopted policies compatible with the EU and the euro systems as well as joining the EU and NATO membership. It concluded long sequence of economic exploitation, cultural domination and political exclusion of the ethnic host populations of Estonia, Latvia and Lithuania in particular.

The National Development Plan of Latvia (NDP 2020) was envisaged by the government planners and the parliament as a USD 16 billion of programs. Compared to other national development plans, it was to be comprehensive (Pārresoru koordinācijas centrs, 2012, 2013, 2014). It would help the relatively underdeveloped Latvia to reach most current norms of the EU in seven years. The managers of the plan would draw the allocated state funds. An eager promoter of innovation and growth, and also the originator of the European Core Social model, the EU was planned to be the second largest contributor.

The NDP 2020 was not the first development plan of Latvia. A previous one, adopted by the parliament, then abandoned for lack of funding, was at least a partial guide for much improved planning processes and goals. The NDP 2020 was of special importance in generating a strong impetus to improvements. It was expected to guide and stimulate a great movement of innovation forward from one of tail end states of the EU. Given to more substantial volume of investments elsewhere in Europe, narrowing the gap would be hard and difficult for ambitious yet less experienced competitors (King & McNabb, 2014).

The authors made an eclectic review of the progress of economic growth in Latvia, one of the Baltic States, a relatively new independent nation in Northern Europe. Selection of this small nation for the study was intended to be only partially useful for other development managers and planners of similar countries or in the EU. The authors' long history in tracking Latvia's development problems was important for our choice. It allowed us to treat development not just as narrowly defined in scope (Robbins, 1935), but to take our inquiry across a wider range of development plans as most of the established scholars did (Gillis *et al.*, 1996). Moreover, the EU initiative with emphasis on innovation was seen in Latvia and elsewhere in Europe as more closely related to innovation and Schumpeter's ideas (1950) of sweeping changes than in the past. This and other case studies offered information platforms for the analysis of management

decisions, their advantages and weaknesses of their choices. For other students of development, we offer references to the more unusual long views of Acemoglu and Robinson (2012), the fascinating documents of Fegezaks (2011), as well as recent Adukaite (2001), Dombrovskis (2011), Frank (2001) and Sachs (1994), Shatrevich & Zvanitājs (2012). Zīle *et al.* (2000) provided a recent overview of the Latvian economy.

Literature on the very important transformation policies focused on rural-urban value conflicts and other social factors (Beinerte, 2012). Important literature on transformation strategies (Hensman, 2013) was unknown in Latvia.

Clearly, no single comprehensive economic theory can adequately cover the range of policies considered by a nation as it seeks to implement a policy for ensuring adequate growth over a period of several decades or longer. Consequently, this study draws on several different theoretical approaches. These serve many different purposes and range from monetary devaluation to reduce the costs of exports to social policies for the improvement of welfare and the maintenance of a balanced population, and increasingly give consideration to higher priority of economic goals for Latvia (King & Balabkins, 1997; Dombrovskis, 2011). The more global approach avoided the very narrowly interpreted approaches used in the 1932 definition of economic science by Lord Lionel Robbins (Robbins, 1935) as well as the simplified models widely adopted after World War II. There was constant broadening of development priorities along political and social policy lines; moreover, complicated factors beyond preconceived plans that now required constant revision of priorities, influential factors and constants. In the authors' experience, this was most obvious; the operational military logistics were often based on outdated regulations, estimates and tables to save time and scarce personnel. All this led General Dwight D. Eisenhower, a meticulous planner and commander of largest scale operations, to exclaim that plans were useless, that all value was in the process of planning, in the revisions and discussions leading to important modifications of strategy. And yet, there are occasions that are selected for the readers' references, teagues and tactics. More than change when the dictates of time force the preparation of policy proposals likely to be ineffective at least in the long run. Such was the example of agricultural development priorities given by the Latvian government in the 1920s that led to the adoption of old value systems combined with short-term farm employment and the use of existing skills of a try. Conceptually similar were the proposals of Frank (2001), Sachs (1994,) and even Schumpeter (1950). The authors of the present study were impressed by the encyclopaedic array of various development plans by Gillis *et al.* (1996). The authors' latest writing also reflected a composite approach to the three small comparative Baltic States.

At the core of the study is the evaluation of factors favouring or delaying innovation and economic development in the twenty years of regained national independence. The study concludes with an assessment of the strengths and weaknesses of the National Development Plan (NDP) developed with the *Europe 2020* initiative. While the EU's

guidance and assistance in planning were welcomed, Latvia's planners faced difficulties in arriving at uncompromised plans. The 50-plus years under Soviet top-down planning and catering to special interests tradition had to give way to compliance with the core social capital dictum for success spelled out by Gillis *et al.* (1996):

A key element in economic development is that the people of the country must be major participants in the process that brought about [the] changes in structure. Foreigners can be and inevitably are involved as well, but they cannot be the whole story. Participation in the process of development implies participation in the enjoyment of the benefits of development as well as the production of those benefits. If growth only benefits a tiny, wealthy minority, whether domestic or foreign, it is not development (1996: 8).

Goals and Methodology

A comprehensive approach to guide systemic economic growth changes in Latvia must include accumulated values and the uses of social capital. For this study, the influence of Joseph Schumpeter's 1942 (1950) thesis that innovation and creative destruction are the driving forces of development and the changes in economic structures. The historical insights of Daron Acemoglu and James Robinson (2012), even as they reject many other theories, is one of the most important sources on the interface of political and economic institutions, the exploitation of the peasants, and a general lack of innovations outside manor estates. Hence, Latvia's future growth, as has been the case for other former Soviet republics and satellites, has been dependent upon the creative destruction of lingering romance with outside systems forced upon the nation and the open acceptance of new nation-building processes.

Several narrowly defined aspects were adopted to serve special purposes. Limited theories, such as shock therapy, and other simplified concepts advocated by Jeffrey Sachs (1994), were less useful practical guides for Baltic planners. The authors did, however, recognize the disputed concept of an almost biological concept of mutation in the Darwin model that stresses the roles of individuals in economic life (Gillis *et al.*, 1996; Frank, 2011).

Even the latest narrowly defined economic theories (e.g. Shatreovich & Zvanītājs, 2012) of innovation and development did not have reliable data available in Latvia; they remained unproven theoretical constructs that cannot be validated. Broader approaches seeking universal social policy systems (Aidukaite, 2003) also remained underdeveloped theories. They lack consideration of mutually acceptable social values in the Baltics. Moreover, it was noted that opinion research in Latvia indicates that the large, pessimistic part of the population did not accept the confident optimism of the government (*Diena*, 27 June 2012; regular monthly reports of *Latvijas Barometrs*).

Primary data, statistics and survey information is used only for the analysis of current trends related to innovation in Latvia. There are also several research organizations among the sources used, e.g. the international Legatum Institute, the Union Innovation Scoreboard of the European Commission, the Latvian research centre SKDS, as well as personal observations by members of the whole study team. Daily press reports on current issues were read regularly.

Planning for National Development

On 23 April 2012, the Latvian Prime Minister (more accurately, the President of the Cabinet of Ministers) Valdis Dombrovskis released ambitious industrial policy plans and an estimated USD 16 billion financing for what was conceived as a 'great leap forward'. The broadly conceived policies that are a part of the new National Development Plan (NDP) are proposed as a guide to achieving bold, accelerated economic growth over the next decade.

In the short term, the emphasis was on specific programs to increase innovation in employment and industrial production, to improve private and public cooperation, as well as to advance exports. The key role of the plan was to integrate development goals with state budgets; a very important, separate planning role was assumed by the two dominant lenders to the Latvian government (*Latvijas Avīze*, 30 May 2012): the European Commission (EC) and the International Monetary Fund (IMF). The most important immediate priority expressed by the Latvian government is the increase of exports. However, exports require the availability of products or services demanded by markets. Therefore, longer term plans were likely to depend more on innovation and focus on structural changes in the productive infrastructure of the nation. Mindful of many definitions of innovation, our approach used this term broadly, in the sense that an innovation is simply something new: it may be a new idea, a new method, a new product, or a new service.

To build the consensus for an effective program, Dombrovskis engaged the ruling coalition and the new Cross-Sectoral Coordination Centre (*Latvijas Pārresoru koordinācijas centrs*, PKV (2012, 2013) to agree on a cooperative planning process. The resulting comprehensive plan was expected to make the approach to development more focused and forceful. However, other, private groups are seeking recognition and preparing their own contributions to the overall plans.

Despite the ambitious plans, the Latvian government was highly distrusted by a pessimistic, aging and declining population. Even as Latvia recovers from the cyclical aspects of the severe Great Recession, there is an immediate need to further improve exports and employment. *Ipso facto*, structural changes were sought in employment. Given negligible foreign investment and very limited local resources, special attention was likely to be given to quick and inexpensive innovations to effect desired quick

changes. There was concern about excessively opportunistic service to meet temporary export demand spikes.

Elements of the Plan

There were seven key elements to the *Europe 2020* strategy being followed by the EU Member States. These elements are grouped into three broad building blocks. The first four elements were part of an overall focus on developing economies based on knowledge and innovation, and are, therefore, referred to as elements of the *Smart Dimension*: Policies and processes to be accomplished in this sector included:

- 1) improvement of the overall enterprise environment;
- 2) integration of digital technologies into production processes;
- 3) maintenance of an economic and political environment that is conducive to innovative activity in both the public and private sector, and;
- 4) nurturing of pools of well-educated workers who are able to adapt rapidly to their changing environment and the evolving needs of the production system.

The second building block in the plan was the *Inclusive Europe* dimension. This dealt with programs designed to ensure that every member of European society can contribute to and benefit from Europe's growth and development. Two elements were included in this dimension: 1) an efficient and effective labour market and employment environment; and 2) maintenance of an economic system that erases inequality by ensuring that all members of society have the opportunity to benefit from economic growth through security of employment.

The third dimension was collectively referred to as the *Sustainable Environment Dimension*. This sector of the development plan was built on a single strategic focus: high quality, well managed physical policies that contribute to overall national competitiveness and preservation of a pollution-free environment.

Planned Recommendations

The Latvian version of the NDP included recommendations for bringing about solutions to innovation challenges and launching an unusual, long overdue, strategic planning process in the country. Marked with a sense of confidence as well as urgency, this was subject to major risks, including the resolution of the euro issues. The planning is sponsored by a weak coalition government that is usually engaged in short term actions. However, working with representatives of the private sector, the government expected to establish a consensus of the ruling coalition on joint national priorities.

In view of the fact that this strategic planning was linked to the Latvian budget as well as the support extended to Latvia by external lenders the European Commission's *EUROPE*

2020 recommendations were particularly important. The following suggested innovations were the implementations of structural changes to avoid excessive deficits:

- 1) shifting taxation from labour to consumption, property and use of taxes;
- 2) reducing long term and youth unemployment;
- 3) improving social protection and reduction of poverty;
- 4) increasing energy efficiency;
- 5) improving the management of the judiciary;
- 6) reforming higher education, and improving linkages to the market.

Frustrating Index Rankings

In the summer of 2012, Latvia found itself in a frustrating position. It was pleased with its 0.803 score and ranking of 43rd in the list of 147 countries in the United Nations' *Human Development Index* of the United Nations Development Program (UNDP 2012). It was also proud of its rising 0.873 score on the UNDP's *Education Index*, well above the European average on this index. Despite these achievements, the population did not understand why Latvia remained one of the two or three poorest countries in Europe. Indeed, most believed that the EU, while making generous cohesion grants to Latvia, was materially exploiting it (*Diena*, 27 June 2012). Nearly two-thirds (64%) of the population was consistently unhappy with the government and the economic conditions in the country (*Latvijas Barometrs* 49, June 2012).

The *Gini Index* published by the World Bank (2014) shows higher inequality in Latvia than in Estonia and Lithuania. Popular dissatisfaction may well be a reflection of the visibly higher standard of living among the affluent. The more detailed *Legatum Prosperity Index*, ranked Latvia the 51st among 110 countries in 2011 (see Table 1). Estonia ranked the 33rd on the LPI; Lithuania ranked the 44th.

The National Development Plan is to be the basis of a national plan that guides the Latvia's economic development policy for the first half of the twenty-first century (Legatum Institute 2012).

Table 1

Prosperity Index Rankings, 2011^{ab}

Prosperity Factor	Estonia	Latvia	Lithuania
National economy	41	90	95
Entrepreneurship and opportunity	26	33	39
Governance	22	40	42
Education	35	32	31
Health	38	43	40
Safety and security	34	43	35
Personal freedom	70	81	71
Social capital	46	96	66

^a Source: 2011 Legatum Prosperity Index (www.prosperity.com/rankings.aspx)

^b 110 Nations ranked by ability to foster drivers of prosperity

Latvia has faced serious challenges since regaining its independence. Relatively low rating values on the three indices are reflective of these difficulties. The loss of a substantial portion of its population during and after World War II, low fertility rates, and the migration of large numbers of its young and highly educated working age population were among those problems. Another was the loss of Russia's demand for the products of heavy manufacturing industries.

NDP 2020 Details

Latvia's draft National Development Plan for 2014–2020 (NDP 2020) was quickly reviewed and endorsed by the Cabinet of Ministers of Latvia on August 14, 2012. On the next day, the Cross-Sectoral Coordination Centre (CSCC) called for amendment proposals to be submitted for public discussion within a month. The amendments could be submitted by any individual or organization.

Compared to a previous major plan that was abandoned for a lack of funding, this version of the plan was more structured and was linked to the National Development Plan for 2007–2013. With anticipated parliamentary approval and funding, it stated three top priorities and the derivative operational policy directions. The three principal priorities that represented the desired leap forward were: 1) *development of the national economy* that anticipates the growth of producers of higher value products for export and domestic sales, research and innovation for greater competitive advantages, and effective programs to assure energy resources; 2) *safety and wellbeing* with calls for higher incomes, strengthened middle class, reduction of inequalities, greater self-sufficiency and social participation, and higher birth rates; and 3) *regional provincial development*, which is expected to lead to better use of local resources, improved services, and the maintenance of a high quality environment. Progress in this third priority was likely to result in operational improvements only.

The three priorities were translated into operational programs (*directed actions*), as well as the derivative tasks assigned to specific ministries. Also the indicators of expected results for 2014, 2017, 2020, and 2030 were included in the draft plan. Thus the per capita GDP is expected to rise to the present EU average by 2020, and the GINI inequality rating would decline to EU present level by 2020. Birth rates were to recover to more normal levels.

The directions concluded with lists of specified tasks assigned to various ministries. The draft was a medium term planning document that was closely related to national reforms tied to *Europe 2020*, and the longer term strategies for 2030. An indication of the

difficulties, which planners faced, was delayed adoption of the plan, as public policy by ministers of education, health, and environment continued to push their own plans despite consensus approval of this version of the plan. Any reallocation of funds also depended upon approval by the EU.

Changes in Strategic Thinking

The 2012 draft of NDP 2020 reflects significant changes in Latvian strategic thought. The plan is anchored in commitments to the EC and IMF, Latvia's principal bailout lenders in 2010–2011. The lenders' provisions had decisively important financial dimensions. It was well received by the lenders (Aslund & Dombrovskis, 2012; King & McNabb, 2011). The effective handling of the bailout anticipated Latvia's accession to the eurozone in 2014, and the constraints were very tight. Annual reductions of 0.5% were tied to a maximal deficit of 2%, allowed for 2012 (*LETA*, 16 July 2012). The NDP 2020 was conceived more broadly than any previous economic plan; it was intended to foster a breakthrough in development of Latvia.

The government's material planning activity was conducted by representatives from three groups. At the same time, however, open hearings provided practically unlimited participatory opportunities for popular participation. Despite the widespread opportunity for contributions from groups and individual citizens, the NDP 2020 planning process was hobbled by public concern over the requirement that the final product represented the expression of widely shared consensual values. This concern was emphasized through a public call for a better definition and greater expression of a distinctly Latvian national identity and less EU "boiler plate" (Beitnere, 2009).

Unresolved Problems Remain

From the perspective of the authors of this study, there remained important problems that will not be easily resolved. The draft did not include acceptance of an emphasis on the dynamics of a Schumpeterian change. For example, the proposed major reforms of the Ministry of Education and Science were met with a veritable refusal by the principal executives (*Neatkarīgā Rīta Avīze*, 24 August 2012). There remained a sense of common resistance to change that was explained by Niccolò Machiavelli centuries earlier. Given the Latvian historical experience, widespread doubt existed about the adequacy of the national commitment to innovation as an operational *sine qua non* value.

Issues of special importance include: a dire need to advance exports, increase employment, repatriate labour from Western Europe, and to stimulate innovation in the economy. In the current situation, problems related to these issues did not appear to be adequately resolved in the current long-term plan version. They tended instead to reflect a particular

weight to short-term action. The ambitious several year plan basically converts to financially stiff parts of the emerging seventeen year plan.

The current employment situation in Latvia remained grim as long as it remains a low income country unable to support significant numbers of the unemployed. Currently, the actual employment picture was unclear. The unemployed are represented by three categories: the hard core of workers who are unemployable in an urban, industrial society; the unemployed who required improved qualifications; and personnel, including employers, who needed academic upgrading to improve the quality of the labour force for innovation and new opportunities.

Over the last ten years, about one-tenth of population of about 2 million had gone abroad to seek work. As reported by the Ministry of Economics, unemployment, mostly in rural areas, was recently estimated at about 11% of the active labour force of 1.028 million (*Latvija Amerikā*, 18 August 2012). As many as 16% were looking for work (*ir*, 13 August 2012), but vacancies were hard to fill in Riga.

The estimated illegal and unreported work has declined from 38% in 2010 to only about 30% in 2011 (*LETA*, 25 August 2012). There is a strong resistance to work at the level of minimum wage (*Latvija Amerikā*, 18 August 2012). Most new vacancies that are projected to occur in manufacturing industries, retailing and services represent opportunities for about one half of the unemployed that are very limited. The survey data suggested that about 70% of the population rated chances of finding good work as bad or very bad; positive ratings were at 5% (*Latvijas Barometrs*, No.50, August 2012). Planners noted that increasing manufacturing activity is necessary both to provide the jobs needed to keep workers and to improve economic conditions for the nation; the contribution of manufacturing to GDP was projected to increase from 14% in 2014, to 16% in 2017, and 20% in 2020.

The Contribution of Education

Under the problematic circumstances underlying the long-range planning for development in Latvia, programs of improved work-related education are potentially extremely important in shaping a good part of development and in supporting innovation in Latvia. The magnitude of this change reminded the authors of this study of Napoleon's prestigious *Grandes Ecoles* established for the very purpose of providing new insights and skills for professional innovators in administration, the military, polytechnical applications, and in commerce. A noteworthy reminder of the intended excellence for the new schools was the preparatory program at the famous *Lycee Louis-le-Grand*.

In the first years of restored independence, the Latvian schools were encouraged to expand. Enrolments more than doubled between 1960 and 1989. Enrolments in institutions of higher education increased from 22,000 in 1960 to 44,000 in 1989. There

was a further surge of enrolments to 140,000 students in 2007 in the quickly expanded higher education system of 65 public and private universities and colleges. This was followed by a sharp drop in enrolments to 85,000 in 2011 – a reflection of earlier low birth rates, reduced financial aid and an increased student interest in education abroad (tvnet.lv, 26 August 2012). A recovery seemed unlikely without massive additional financing to reduce moonlighting by university professors (*Latvijas Avīze*, 28 August 2012).

Professor Roberts Kīlis, former Minister for Education and Science of Latvia, planned sweeping reforms that included administrative reorganization, more instruction in foreign languages for better international linkages, as well as a closer relationship of academic instruction to employment. He was also known to be working for improving financial aid to students. An important aspect of other improvements was a massive construction program to support natural sciences and new technologies financed with EU grants for major universities. At the time, however, there were no funds available for his proposals.

Outside observers deplored the lack of distinction of Latvian higher education. It simply did not compare well to higher education in other Baltic and Nordic countries (Ruin, 2012). It was expected that planned reforms would lead to consolidation or closing of the weakest of universities and colleges. A public opinion poll offered few suggestions for improvement other than increasing financing.

To state it bluntly, the Latvian education systems were not ready to play an important role in what has been perceived to be the third industrial revolution (*The Economist*, 21 April 2012). There appeared to be no high quality institutions prepared to implement future innovations and raise the quality of teaching. This, however, is precisely what a crash program of innovation should provide.

Possibly a more credible approach for improving industrial innovation than the current practice of allocating innovation funding to a few favoured industries would be to fund research through the Latvian Academy of Sciences, major universities, and successful research institutions. Greater research and emphasis in the management of change and the economics of development can only strengthen the management education programs that are currently available in Latvia. A desirable goal is the development of a cadre of skilled planners that can assist in annual long-range planning for economic development.

Revisions of the National Development Plan

The financial expectations in Latvia's development plan were based on the unusually fine performance of the Latvian economy in 2011 and 2012. However, other than an unused line of credit of the bailout, few other reserves are available. In that sense, much of the desired outcome of the optimistic plans depends largely on economic good luck.

There is always a risk that the parties of the ruling coalition will not stick together in honouring their mutual obligations. With the highly autonomous ministries, there is a risk of sudden disagreements, of proposals to eat more of the developmental seed corn. Indeed, as the plan was finalized, the leadership of the Unity Centre, the large opposition party, was writing an alternative plan.

The working difficulties with the representatives of the autonomous ministries made the final writing of the draft hasty and in need of corrections. A final risk was associated with the way changes in tasks and financing would be managed in the more distant future. This was the risk that the top three priorities would be compromised by a reallocation of funds to the tightly planned budgets for lesser priorities. For example, the linkage of the NDP 2020 to the EU 2020 employment target of 73% of the 20–64 years olds may not be politically feasible as planned. This multipurpose approach is evident from Gillis *et al.* (1996), and Kigg & McNabb (2014).

Realistically, the leadership has to choose from three options: a return to *status quo ante*; a partial adoption of the priorities identified and programs planned; or a real breakthrough away from a stable growth. This decision, including the financial commitments, has been left to the parliament where only a partial compromise is most likely.

Although it was not feasible to review all details and processes of the NDP 2020 for this paper, even a casual inspection suggests the prominence of the need for continuing proposed export expansion. As planned, the contribution of exports to GDP was to increase from 63 % in 2014 to 66 % in 2017, and 70 % in 2020. Productivity gains were the anticipated sources of increased competitiveness in markets abroad. Investments in research and development were proposed to achieve the higher projected growth rates of 0.8% in 2014, 1.2% in 2017, and 1.5% of GDP in 2020. However, these were not adequate to enable the country to catch up with competing EU Member States. In absolute terms, Latvia was falling further behind others in these innovative investments.

On the positive side, Latvia's Prime Minister Dombrovskis, now a Vice President of the EU, and his successor, Prime Minister Laimdota Straujuma, were personally committed to the planned breakthroughs. Moreover, he enjoyed an enviable recent gain in export performance, as well as personal popularity as one of the next EU vice presidents for development functions. Indeed, Latvia obtained British and German support for membership in the OECD. Even with this support, the planning seemed to be too tight and the current budget too restrictive to be finalized late in 2014. Going beyond the NDP 2020 or NDP 2030, it was also clear that most major improvements were to come from the strategic transformation processes outlined by Hansmans *et al.* (2013) and our own work on national building (2014).

Conclusions

- 1) Far beyond the scope of this report, the biggest development problem in Latvia is the very large Russophone colonies, actually majorities, in major cities.
- 2) The second unresolved problem is the mixed value system that Latvians have cultivated.
- 3) The authors see no problem with the gradual improvement of compliance systems of management and communications.
- 4) The authors would like to see the elimination of most, but not all, bureaucratic staff positions. They should be replaced by functional managers.
- 5) The authors think that the medicine and welfare is in good shape.
- 6) The authors think that the NDP 2030 is overstretched, and would rather have three separate five-year plans.

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THE PERILS OF ARMED DIPLOMACY

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Abstract

The present article deals with a comparative review of foreign policy that the Russian empire builders used in the past and were using in the present. In narrower context, the authors' focus was on Russia-Ukraine and other borderland relations. Both, Peter I and Russia's President Vladimir Putin used hybrid war in Ukraine to build the great Russian multinational power. Russia's expansion options, especially the 'armed diplomacy', were discussed in the historical context of ideas presented by Carl von Clausewitz.

JEL code: F5

Keywords: *armed diplomacy, the Baltic area, Russia, Ukraine, Vladimir Putin*

Introduction

On 24 August 1991, the Supreme Soviet of Ukraine declared the country to be independent. Getting the word at the US Department of State, Paul Goble, an expert on Soviet minorities, happily shouted that without Ukraine, there cannot be the Soviet Union. This was the sixth attempt to unite several lands and culturally different people into a free state of Ukraine.

On 16 March 2014, Vladimir Putin, President of the Russian Federation, accepted the annexation of Crimea, an autonomous district of Ukraine that was recently occupied by pro-Russian forces. The well planned occupation, as well as the separatist media campaign followed a revolutionary regime change in Kiev – the capital of Ukraine. A massive demonstration of Russian might and power at the opening ceremonies of the Olympic Games in Sochi increased popular support for Putin's actions in Ukraine; Putin was ready to begin the reconstruction of the Russian empire.

To some observers, Ukraine was now lost to any association or alliance of the West. Actually, it was lost three centuries earlier, during the Great Northern War. For practical

purposes, the battle of Poltava ended the Baltic empire of Sweden and reduced Western support for a sovereign, independent Ukraine.

In 2014, the annexation of Crimea was one of Putin's early steps to begin the reconstruction of the Russian empire. It also introduced an aggressive strategy that uses the tactics of a very flexible foreign policy we elected to call *Aggressive or Belligerent Diplomacy*. In the Russian empire, building the simple and clear 1874 dictum on war by Carl von Clausewitz (2006) of the Prussian Army did fit well. The war indeed was the extension of foreign policy to the events of 1709 and many years later.

The Russian empire declared by Peter in 1721 also distinguished wars from other foreign relations. Wars were but extensions and sequels of formal negotiations that ended with the surrender or submission of the subordinated nations or territories. Substantial military and civilian population fatalities were expected in wars. The costs of such actions tended to be high, as well as military and civilian fatalities were high. The more recent, much less costly adventures by Putin were described by Russians as hybrid wars.

Goals and Methods

In the present article the borderland issues of the 18th century were relatively easily seen in a library study. Today's events were more obscure. At this time, they were only in part reflected in the daily press. To our knowledge, only in the edition of *The Economist* of 14 February 2015, there were several articles, including the leader *Putin's War on the West* (46, 8925: 3, 9–10):

It is time to recognize the gravity of the Russian threat, and to muster to resolve to counter it. Russia's aggressions in Ukraine are part of a broader, and more dangerous, confrontation with the West.

The current case of Russian aggression was different in that flexible negotiations were used to resolve the alleged conflict. These included armed actions where the fatalities anticipated may or may not emerge. The probability or just some risk prompted us to give these unusual processes the name of belligerent diplomacy. The fear of war, or less likely, the possible real war dominates the foreign policy process.

This probability moved American diplomacy to mild, cooperative behaviour in the Ukrainian case (Strauss, 2014). The combination of communications and the threat of force strongly favoured the powerful aggressor. In contrast, the normal negotiations among the nations may also exist in situations where fatalities were not intended or expected as part of common diplomacy. There was no particular reason other than decent behaviour for Russian aggression to abandon the threats or use of force. What we saw was the belligerent diplomacy as an aggressor's instrument of choice. It was the aggressive Russia that used it in borderland conflicts.

Ours is an empirical library study with a historical approach to the emergence of the Russian Empire. It was declared by Peter the Great at the conclusion of the Nystad peace treaty confirming Peter's conquest of the East Baltic provinces of Sweden and the new status in Europe. The study also tracked the aggressions of Russia in 2014 to begin building what was not another empire. Finally, we noted scarcity of scholarly work. Looking at Putin's empire, it reminds us that over hundreds of years, histories were written for other purposes by historians of various ideologies and value systems.

An Empire is Born

Under its different forms of government, Russia has experienced various wars and diplomatic conflicts since its birth under Peter I. The Russian empire itself was a child of the Great Northern War. Peter acknowledged a major shift of power in Europe and declared Russia to be an empire after he defeated Swedish Charles and the followers of his Ukrainian ally, Cossack Hetman Ivan Mazepa (Magosci, 1991; Plokhy, 2010).

Earlier, Mazepa, known as a patriotic Ukrainian with a Western orientation, had helped Peter to conquer Estonia, Livonia, the strategically important city of Riga, as well as a trading post at the Neva estuary. At the beginning of the Great Northern War, Charles did win two splendid victories: one at Narva where a single farmer volunteered to lead Charles and his small, disciplined army on a daring night attack on Peter's sleeping army. At Riga, Charles, forever the innovative battlefield master, and his troops used smoke screens for a river crossing to defeat a Saxon army.

Later, with the established supply lines of troops, military supplies and the important grain from Ukraine, Charles and his army moved from one engagement to progressively lesser engagements. Ultimately, Augustus II was removed from his throne.

Ivan Mazepa's partnership was valuable to all takers. The sovereignty for Mazepa's parts of Ukraine was apparently increased. As it was common in the era, Mazepa changed sides. Mazepa turned to Charles, Peter sacked Mazepa's fortress and logistics town of Baturyn in 1708. The population, including women and children, was killed.

Also in 1708, many reinforcements and replacement troops, as well as thousands of supply wagons were lost by Adam Loewenhaupt, the best of Swedish generals and the governor of Riga, at Lyasnaya. Charles and his allies, decimated, hungry, and lacking supplies, faced Peter's Cossacks, a much larger army. With gradually depleted ranks, Charles, against all expectations in the West, was unable to gain the fortress and supplies at Poltava (Wilson, 2009).

Clearly, an empire, Swedish or Russian, is a state that has organized itself and subordinated other states in a centralized fashion. A more complete definition was proposed by Motyl in 1999: empires consist of distinct regions (the core and the periphery), the imperial state and ruling elite are located in the core, and the core and

periphery resemble a wheel with spokes but without a rim. Aggressive empires were highly centralized. They were usually ruled by an ethnic entity. Such empires did have former or contemporary borderlands (Taylor, 2014).

When the empire was declared by Peter after the battle of Poltava, it fundamentally changed East-West relations, especially in lands bordering with Russia for hundreds of years (Wilson, 2000). This aggressive expansion of the empire ended with the third partition of Poland and the establishment of the Grand Duchy of Finland. The high point of Russian imperial expansion was in Alaska where a Baltic German Admiral Ferdinand von Wrangel served as governor. The empire ended in late 1920 when a relative, General Peter von Wrangel, evacuated the White Russian armies from the Crimean naval base of Sebastopol with 120 ships. More than 50,000 troops that elected to surrender were killed by the Communist victors.

Putin's partition of Ukraine was aggressive yet relatively peaceful. To most Westerners, it was done in direct conflict with international law. Concerns about state safety and security, and what were perceived as inadequate protection of Russophones in Crimea were given by Russians as justification for the aggressive actions.

The new use of flexibility was preceded by the gradual domination of weaker neighbouring tribes and small, relatively weak, principalities. They first sought to increase their influence by forming mutually acceptable, often unstable and shifting alliances. They were strengthened by the exchange of gifts and friendly community tributes also known as "gifts to guests".

The shifting nature of any relationships tended to be weakened by the Russian tendency to centralize the administration of previously uncontrolled areas and tribes. Over time, these sparsely populated areas were consolidated regionally. Indeed, much of today's Russian heartland was composed of former Eastern Baltic and Northern Finnish communities and lands in the west and north of Moscow that were gathered to protect them from their former friends and trading partners. Eventually, the militarily stronger lords subjugated their weaker neighbours by rulers of local or external ethnic backgrounds, notably Scandinavian or Lithuanian princes. These minor adventures turned into real wars of conquest, notably those of Ivan IV, the Terrible, and Tsar of Muscovy. In a sense, these early, yet often conflicting relationships led to usual patterns of negotiations and hostilities. The last great battle of such shifting conflicts was that of Poltava in 1709 that led to the proclamation of the Russian Empire (Wilson, 2009).

Whatever plans the free Cossacks, Lithuanians, Poles and Swedes may have had for the future of Ukraine, Peter's victory precluded a sovereign Cossack state that would have helped to provide for a stronger balance of power in Central Europe. The borderlands of the empire were more open to imperial aggression; Ukraine was subject to increasing subordination to the central authority and Russification in terms of culture, language, and even the Eastern Orthodox Church.

Approaches to Empire Building

The authors conducted a historical study of an aggressive, empire building Russia. The strategies, practices and other advantages and disadvantages of actions taken by the Russian leaders in Europe were used as illustrations and examples of empire building. The authors focused on two events in the development of Russia. The first was the battle of Poltava in 1709 that allowed Peter to declare Russia to be an empire in 1721; the second was the forceful annexation of an autonomous district of Ukraine. The perspective is that of use of force by an expanding modern day Russian empire (Motyl, 1999; Subtelmy, 1988). This Russia is shown as *Insatiable* on a recent cover of *The Economist* (19 April 2014).

The authors' task also included a review of detailed yet broadly structured planning and operations by alliances of the West that were opposed to changes in the countries at the crossroads near Russia. Of special interest were the threats of forceful intervention in other countries as part of a uniquely Russian doctrine of defence that suggested any expansion to be protective (King, 1965; Khrushchev, 1959; King & McNabb, 2009).

The authors introduced the term '*belligerent diplomacy*' to describe the process of communication that is used to instil the fear of war among opponents. It connected war, as defined by Clausewitz, with more traditional uses of communication between the nations. Diplomatic practices were faster and more tactical than ever. With the development of modern communications, it is expected that Russian diplomacy will be more closely integrated with military planning processes and national strategy formulation. This warrants a new look at this process.

As a form of study, this case research is applicable to the evaluation of the Russian empire building. The belligerent diplomacy was dangerous enough to serve special identification and attention in foreign policy contexts. For significant departure from other strategic studies, we turn to Clausewitz (1874) for more advice and suggestions.

When Clausewitz defined war as a logical extension of diplomacy, the line separating the two was clear. Because the two processes were related, even Clausewitz insisted that they have to be examined together. Clausewitz described his approach with a focus on the adversary in a narrative model that continues to be published and reviewed. He wrote, "There is, upon the whole, nothing more important in life than to find out the right point of which things should be looked at and judged, and then to keep that point, for we can apprehend the mass of events in their unity from *one* standpoint, and it is only the keeping to one point of view that guards us from inconsistency" (Clausewitz, 1874).

The authors interpreted this statement to mean that the opponent's point of view is extremely important. This cavalier disregard of formal and informal agreements and alliances had become visible to areas larger than Russia's borderlands. The concerned Nordic countries, Finland and Sweden, were now exploring partnership opportunities with

NATO for stronger defence. This larger defence base and joint planning should not lead to assumptions about their readiness to deal effectively with Russia's belligerent diplomacy.

Return to Imperialism

Tsarist Russia's use of armed aggression as a policy appears to have been retained by today's imperial Russian Federation. The increasingly less credible diplomacy has clearly become the servant of aggression rather than just a partner of the development of modern Russia. More than ever, the strategic importance of gradual acquisitions apparently justifies the very high cost of military ventures or economic threats. Less destructive than a regular war, it now was attempting more of territorial acquisitions.

The most important defensive strategy from the imperial perspective has always been the imaginary or real necessity to protect the Russian heartland. Difficult as it is to imagine the foreign occupation of modern Russia, Russian leaders preferred to raise and to maintain large armed forces, internal and external buffer zones, as well as friendly, yet distrusted allies, and trip wire dependencies of dubious value. In reality, most Russian fighting in the two world wars was in the Western border regions.

Previous conquests, annexations or other subjugations did not come with a constant expansion. Rather, they followed carefully monitored opportunities and meticulously prepared, flexible strategic and operational planning by the Russian leaders and their military and policy specialists. Good examples of such planned behaviour were the territorial aggressions of 1939–1940: the Winter War with Finland, the annexation of Western Ukraine and Belarus in 1939, and the occupation of the Baltic States and parts of Romania in 1940. Red Army's maps of the Baltic States with legends of the Soviet Socialist Republics were printed in 1939, well before their actual invasion.

The most recent Russian acquisition was Crimea. It was taken without formal negotiations. Even the more distant Nordic neighbours of Russia felt alerted to this change to probable part of a new Putin's doctrine. This Putin's doctrine would be based on action to protect the safety and security of the Russian aggressor and aggressor's allies. In this situation, the minority bears would insist on dancing with majority mice on an equal basis.

As expected, this was a signal of danger to virtually all neighbours of Russia. The first reports from the Tatar minority leaders suggested that, having lost what had remained from the Tatar khanate's previous autonomy, the Tatars of Crimea were expected to become Russian citizens and to use Russian as their principal language.

Aggressions Defined

Wars change, diplomacy changes. When Clausewitz defined war as a logical extension of diplomacy, the line separating the two was, for practical purposes, clear. Even then General Clausewitz insisted, because the two processes were related to each other, on careful evaluation to counter a potential aggressor's moves. In our review of events leading to the Russian annexation of Crimea, it was obvious that this combination of war and threats of hostilities was a part of a new reality. It confirmed to us the need to study Russian attitudes and past actions comprehensively, including all important alternatives and options.

Clearly, such options include aggression as defined by the definitions adopted by the General Assembly of the United Nations Organization. Together, they are virtually a handbook for aggressors. Selected articles and elements of the 1974 definitions and descriptions of what constitutes aggression as provided by the Human Rights Library of the University of Minnesota follow:

- 1) Aggression is the use of armed force by a state against the sovereignty, territorial integrity or political independence of another state, or in any other manner inconsistent with the Charter of the United Nations.
- 2) The first use of armed force by a state in contravention of the charter shall constitute prima facie evidence of an act of aggression.
- 3) Any of the following acts, regardless of a declaration of war, shall...qualify as an act of aggression:
 - Invasion or attack by the armed forces of...another state, or any military occupation... or any annexation by the use of force of the territory of another state.
 - Bombardment... or the use of any weapons by a state against the territory of another state.
 - The blockade of ports or coasts.
 - An attack... on the land, sea or air forces or marine and air fleets of another state.
 - Use of armed forces within the territory of another state with agreement of the receiving state in contravention of the conditions provided for in the agreement.
 - Action of a state allowing its territory to be used by another state for perpetrating an act of aggression of the third state.
 - Sending... armed bands, groups, irregulars or mercenaries, to carry out acts of armed force against another state.
- 4) The acts are not exhaustive and the Security Council may determine other acts constitute aggression under the provisions of the charter.
- 5) No consideration of whatever nature, whether political, economic, military or otherwise, may serve as a justification for aggression.
- 6) Nothing in the definitions can in anyway prejudice the right to self-determination, freedom and independence, as derived from the charter, of peoples forcibly

deprived of that right and referred to in the Declaration of principles of International law concerning Friendly Relations and Cooperation among States in Accordance with the charter of the United Nations.

The definitions of aggressions do not deter any action deemed defensive by the Russian leaders as early as in the 1950s (King, 1965). Nikita Khrushchev included a list of priorities (consumer goods in the lowest category) for the Soviet 1955–65 plans (Khrushchev, 1959). He identified security and defence as the highest priority. Without exception, all other policies and programs were subordinated to the “security and expansion of the Soviet power” (King, 1965). Accordingly, the Soviet Union was viewed by the aggressor leader(s) as incapable of aggression. The empire building was so to speak, purely defensive from the Russian point of view.

After the collapse of the Soviet Union and the emergence of the Russian Federation, once solemn treaties, such as the Molotov – Ribbentrop Pact of 1939, were in part denied, then later given new interpretations. In the years since the break-up of the Soviet Union, leaders in the West have seen the successor Russian Federation to evolve through a variety of foreign policy iterations as it struggled to find its way in the new political-economic world.

Throughout the 1990s, Russia first appeared to be moving closer to the West. During this period of economic and military weakness, the situation of “one profound crisis” alternated with another. This changed rapidly under Putin. The domestic situation was stabilized by Putin who succeeded President Boris Yeltsin. Putin was elected in 2012 for the third term as the President of Russia.

The brief period of a militarily very feeble Russia was over. Foreign policy announcements toward borderlands became harsh and, in many ways, hostile. Russian diplomacy was now aggressive and often threatening. It was tested with new regulations to promote and to control the ethnic behaviour of domestic minorities and immigrants to Russia. We characterized this political behaviour as *armed diplomacy*. This definition is narrower than that described by the UN, and broader than the warlike actions of 2008 in Georgia.

Hybrid War or Armed Diplomacy

The essence of the armed Russian diplomacy was now fear, particularly the fear of war. Modern communications technology was an excellent tool for magnifying fear of the aggressor though diplomatic negotiations occurring on the brink of war. The authors' preference was to use the term '*armed diplomacy*' for such unstable processes. Unplanned negotiating close to actual military or civilian hostilities was too risky for General Clausewitz. Poorly planned wars endangered the processes of foreign policy making. More recently, we sensed a clear need to identify *armed diplomacy* as a deliberately chosen means of empire building. It was a part of the reality and also more dangerous to ignore or to be considered normal (Clausewitz, 1874).

Now it became much more difficult to predict the possible wars. Indeed it was Clausewitz who advocated to closest and complete intelligence gathering on the opponents' strengths, capabilities and intentions. Crimea clearly surprised the experts of the West, as did Ukraine. Crimea, once the home of a Tatar khanate, had been partially depopulated by Stalin after World War II. The deported Tatars were replaced by Russia's colonists. These colonists preferred to live as Russian citizens, not in Ukraine, but in the "Russian province of Crimea". To the Russian empire builders, this change corrected the alleged historical mistake of awarding Crimea to Ukraine. Moreover, it would help accelerate the Russification of the strategic area. It would become one of the most useful precedents for further full or partial annexation of districts with Russian compatriot majorities. Such areas were readily found in Estonia and Latvia where Russian majorities existed in almost any town or city with railroad connections to Russia.

These compatriots, of course, were not minorities in the commonly accepted sense. Russophones were not necessarily ethnic Russians, no more than the Latin speaking Italian clerks of the Pope could claim minority rights in Italy as Vatican compatriots. This departure from limited minority rights alerted us to Putin's building an expanded Russian empire. Combined with the fear of war in the West, the dangerous situation, especially to the concerns expressed by Finns and Swedes, calls for a different understanding of the empire building by the Russians.

Given the recent weakness of NATO, many of Russia's neighbours are afraid of the reconstruction of the empire. This fear is pronounced under the current conditions, definitions and circumstances. Although the Western countries remember the expulsion of the Soviet Union from the League of Nations for the attack on Finland in 1939, the Finns now believe that mere sanctions cannot adequately protect them.

We expect that Putin used disguised or special openly recognized forces. Unidentified by regular insignia, these forces were directed to settle conflicts favourable to Russia in the course of difficult negotiations. Indeed, these special troops were used temporarily in the Baltic states of Latvia and Lithuania at the time of Soviet collapse. To us, these were parts of an armed diplomacy. Although the withdrawal from Ukraine was clearly the least desired choice for Putin, it also brought with it other disadvantages.

Putin's rationale for somehow annexing Crimea was important to show to the domestic population that Russia was gaining enough international power to justify the risky venture in the eyes of his electorate in Russia. The annexation of Crimea was immensely popular with Russians living in Russia and neighbouring states (Peterson, 2014). It revived a sense of great mission ("third Rome") for a great state. In this sense, the Crimean adventure posed little risk to Russia. Neither the Ukrainians nor their supporters in the West wanted to punish Russia militarily in an area with ethnic Russian majority. All parties looked to a diplomatic resolution of the conflict. It was, to use our term, for the use of *armed diplomacy*. It was a situation characterized by a fear of war on all sides.

Still another option was not to withdraw from Crimea, and argue in favour of more rights and benefits to Russophone communities in Ukraine and elsewhere. This, under some circumstances, was the best option available, well worth arguing for it. In this case, the minority rights issue in Ukraine is worth more than an illustration. At this point the Russian and Western relationships were dangerously explosive. They were at risk of war without any well-defined war aims; no backup of assured future diplomatic negotiations existed.

When Putin first took office, his intention seemed to follow a policy of rapprochement with the West. However, subsequent events indicate that a distinct shift to a more aggressive effort was underway. Putin's goals were to re-establish the centralized authority of the state, as well as Russia's global and imperial roles (Walker, 2001). He engineered Russia that was capable of forcing its will on any of its former Soviet territories.

Clausewitz's dictum that war should be seen as an extension of foreign policy is applicable to cases of conflict where substantial military and civilian population fatalities are expected. Clausewitz also described wars where fatalities are not really expected and do not occur; these wars are where the processes of endangered diplomacy emerge. To us, this was characteristic of the second process we call *armed diplomacy*. This was a part of the real and also more dangerous trend of aggressive international politics. As the past and present Russian empire shows, this process has been commonly used by Russian rulers to expand their territories and acquire other resources of weaker neighbours and their allies.

Western political leaders seemed to downplay Putin's intent to use aggression in the many forms of armed diplomacy to regain its status as a world power. The grander plan to regain supremacy over its border states apparently was the core objective of Putin's short and long term strategic foreign policies. In any case, the plan for capturing Crimea was handy for at least a test right after the Sochi games where Russia's military might and power was displayed as a part of the opening ceremonies. If it did not work, it could be withdrawn. If it worked better than expected, a similar plan could be tried against the Baltic States that are the NATO Member States. Such a *coup de main* against the Baltic States was ready after recent war games. On the Russian side, there were well armed, well trained paratroopers located near Pskov. Their division and other large units had taken part in the recent *Zapad* war games and in the 2008 war in Georgia.

Arguments for Aggressions

Our review of the emergence of the aggressive Russian empire, in one form or another, was related to optimal choices faced by the nation and its leaders. Traditionally expanding by conquest, the war option no longer is simply a military conflict for imperial Russia. More than ever, this option is amplified by selected public relations

moves, shrewd negotiations, and foreign relations supported by modern technologies of almost instant communications.

We have chosen the words *belligerent diplomacy* for these warlike foreign policy processes. Historically this mode of warlike foreign policy processes was not really new to Russia. These processes were used for a long time to mislead opponents in the borderlands, their allies and patrons. They were, however, more refined and better coordinated. Extremely flexible in affirmation or denial, it now required the analytical research advocated by Clausewitz for complete reviews of the potential aggressor's strategic planning and alternative plans from that aggressor's perspective. Given Russia's commitments to a world power role, they perform the role of the aggressor.

As the history of Russian expansion shows, it is an advantage to the aggressor to be located in a large land mass that is easily conquered. Testified by hundreds of ancient castle hills, destroyed fortresses and the ethnic groups absorbed by Russia, it was eminently suited for the construction of a multinational empire. This was especially so in situations where a former balance of power (as in the Baltic states in 1940) changed in favour of the aggressor. In the face of weak opposition, it did not take much time for Russia to shake off the Mongol rule, to live several hundred years with minor conflicts, and to build an impressive armaments industry.

Conquest rather than negotiated trade options were chosen for Muscovy's growth. The capture of border lands was costly and not really successful under Ivan IV who dealt with essentially the small defensive armies of the German Order and other Russian neighbours from the Baltic to the Black Sea. Modernized further, even though still savage, much larger armed forces of Peter I did far better on the whole string of crossroads lands. The availability of the Ukrainian resources helped immensely in the creation of the Russian empire. First, it was Mazepa and his Cossacks who helped Peter defeat the Swedes in the North. Second, the majority of Ukrainian Cossacks, encouraged by the Eastern Orthodox Church, were the decisive factor at Poltava. In this sense, it can be argued that for Peter, Stalin and Putin Ukraine is essential to any Russian-ruled empire.

Interestingly enough, in the two centuries of empire, a relatively peaceful time, these two centuries ended with the industrial democratization of the borderlands when Premier Count Sergei Witte was allowed and encouraged to build the economic strengths of the empire. It also unleashed the social and political forces that weakened the centralized systems of the empire. More rigid and far more costly were Soviet reforms. This imperial union was a victor of World War II, but could not do both: extinguish nationalist ambitions in the borderlands and make them parts of a technologically advanced empire.

Choices of Aggressive Opportunities

There were three basic options for Russia's national development. All three were important choices heavily influenced by power or lack of international power.

The first option – an economically and militarily powerful state using aggressive diplomacy can exploit a dangerous lack of a power balance. Possibly an internationally powerful state, and a second rate multi-ethnic nation is unable to compete with the nation states that have absolute technological advantages. To us, this was a stalemate option.

The second option – a weaker state, which can be kept under control by a stable balance of power. We saw this as an option for gradual increase of Russian strength and a weakening of the West in a collaborative co-existence mode.

The third option is for both weak opponents to develop long-term peaceful cooperation. To these skilled aggressive diplomacy leaders, this presented a more tempting option that was much like the situation in 2015. This instability can be exploited by armed diplomacy. Our advice for the Baltic States is *Si vis pacem, para bellum*: If you want peace, prepare for war. The borderland states are, by themselves alone, indefensible functional Russian-Latvian relationships, if kept in balance.

Conclusions

- 1) Aggressive diplomacy, although damaging for both sides, is very attractive to the empire builder.
- 2) Hybrid wars that actually include fearsome fighting make war more accessible and are more dangerous.
- 3) Intelligence of the West must be much improved when facing aggressive diplomacy.
- 4) Peter the Great, as a grand strategist, conducted a bloody purge on the Red Square. Then built a bay and fortification at Azov on the Black Sea. With the help of Ivan Mazepa and his Ukrainian Cossacks, he conquered the Northeastern Baltic lands to complete his conquest of borderlands. He was victorious over Charles XII and Mazepa, who had turned the tables at the wrong time. Peter was one of the greatest innovators and built excellent relationships with coalition he maintained against Sweden.
- 5) Putin is no Peter. An excellent karate player, he conducts hybrid wars to scare his neighbours. In contrast with Peter, his strengths are minimal. His resources are in poor condition. Hence, his economy is suffering under Western sanctions. Putin is a tactician. Charles XII was an intrepid hunter, master of battlefields and personally brave but he was a poor strategist and even poorer negotiator.

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