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KAUNAS FACULTY

# DEVELOPMENT IN ECONOMICS: THEORY AND PRACTICE

13<sup>th</sup> International Prof. Vladas Gronskas  
Scientific Conference for Young Researchers

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## FOREWORD

In keeping with the scholarly traditions of Vilnius University Kaunas Faculty, the 13<sup>th</sup> “Prof. Vladas Gronskas Scientific Conference for Young Researchers on the Development in Economics: Theory and Practice” was held in December 2016. This international conference is an arena for cooperation and scholarly fellowship, with young researchers, master and doctoral students from Lithuania as well as Latvia, Poland, Ukraine, Bulgaria, Sweden, China and India actively participating in the different conference sections: Economic challenges in modern society, Innovative managerial solutions, Issues in culture management.

The main goal of this scientific gathering has always been to contribute to the reliable, safe, effective and sustainable economy and business development. Thus, the organizing committee strives to create a suitable platform for well-grounded and open discussion where young researchers have the opportunity to present and share their insights.

Encouraging entrepreneurship is a crucial condition for economic growth and this puts forward a new approach to business, creativity, value creation, and the implementation of innovations. It is precisely in this context where business and science should interact. To reinforce this relevant bond, the guest speakers of the plenary session were selected amongst experienced practitioners and scholars. Dr Artūras Simanavičius from Lithuanian Sports University made a presentation on modern tourism tendencies and challenges. Andželika Rusteikienė, member of VšĮ „Geri norai LT“ (public body „Geri norai LT“) and business association “Investors Forum“, one of the social business promotion program Socifaction founder, talked about social innovations in Lithuania.

This conference encourages internationalization and a closer cooperation between science and business. In 2017, the conference is going to expand the range of themes and invite not only the young but also experienced scientists to present their scientific findings. Hopefully, there has been some useful take-away for both academia and business conference participants: new insights and inspirations for further scientific research and possible solutions to boost Lithuanian economy.

*On behalf of the Scientific Committee*  
**Assoc. Prof. Dr Ingrida Šarkiūnaitė**

## TAX PAYMENT GAP AND TAX MORALE IN EURO AREA COUNTRIES

**VIRGILIJUS RUTKAUSKAS**

*PhD Student, Institute of Social Welfare, Lithuanian Social Research Center  
A. Gostauto St. 9, Vilnius, LT-01108, Lithuania*

**ABSTRACT.** This article investigates theoretical and practical aspects of tax payment gap and tax morale in euro area countries. Tax payment gap among euro area households is investigated by applying “macro approach”, where the main components are shadow economy and tax rate. The attitude of households on tax payment – whether to pay taxes or not – is assessed quantitatively by employing dichotomous logit-probit regression analysis. Research is based on household level data received from World Values Survey and European Values Study. The results suggest that uncollected taxes of households constitute nearly one fifth of total general government revenues in euro area and counts nearly one tenth of GDP. The main issues behind weak tax morale are corruption, disrespect to the country. Additionally, tax morale is significantly affected by factors like age, gender, religiousness, income and education. Article concludes on possible policy options to increase tax morale as growth of population willing to pay taxes by 1 p.p. will result in increase of tax income by nearly 21 billion euros per year.

**KEYWORDS:** *tax morale, tax payment gap, public goods, logit-probit analysis, shadow economy.*

### INTRODUCTION

Payment of taxes is an agreement among tax payers and the state. Tax payers commit to pay taxes and the state provides public goods and security that otherwise would not be available in market economy. However, universal aversion to tax theory contradicts previous statement in a way that every rational economic agent will tend to increase its wellbeing by reducing tax payments and seeking public benefits. Practical outcomes support this statement: for instance, 90% of public income is raised from tax contributions, but at the same time uncollected taxes constitute nearly one fifth. Therefore, attention to the practical and theoretical examination of factors that have the most pronounced influence to tax payment is growing rapidly.

Classical economic theory looks at the tax payer as a simple decision maker. The background for decision whether to pay taxes or not is based on cost-benefit analysis. Usually two main indicators – tax base and tax ratio – are unable to fully and comprehensively explain changes in tax payments suggesting existence of other explanatory variables. This is the reason behind growing attention to the alternative factors, which could disclose factors under unwillingness to pay taxes more accurately. The main drawback of such research approaches is lack of suitable data sources. Usually assessments in field of tax evasion are based on data provided by surveys, experiments, or laboratory outcomes because tax evasion has criminal background.

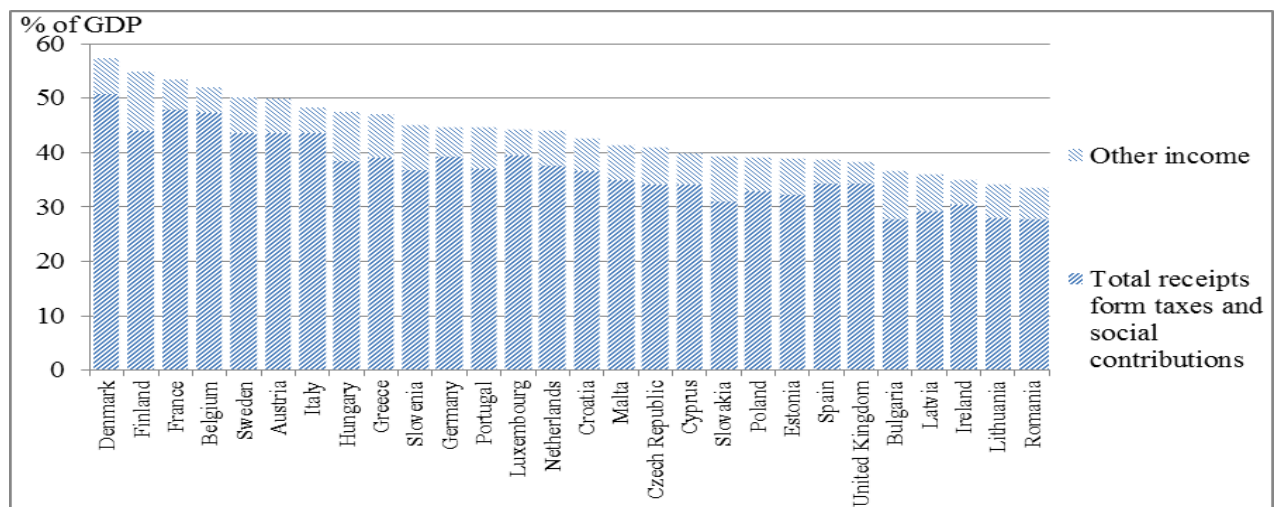
The aim of this paper is to disclose magnitude of tax payment gap among households of euro area member states and reveal factors affecting unwillingness to pay taxes. The analysis of tax payment gap is based on “macro approach” that uses national account data. The analysis of tax morale is based on the data provided by World Values Survey and European Values Study. Data received from these surveys are quantitatively assessed by employing dichotomous logit-probit regression models. Most significant factors behind unwillingness to pay taxes are revealed and described for every country in euro area separately. Results of this paper are beneficial for practitioners, because public authorities could direct their efforts more precisely to increase tax compliance. Moreover, results of this paper enrich academia’s views on alternative factors under tax payers’ decisions that can be guidance for further research. In the end of the paper a suggestion on policy measures that could be helpful to increase tax compliance is provided.

Apart from the introduction and conclusions this paper consists of four main sections. The first section reveals the importance of taxes in contemporary economy. The second section shows the magnitude of tax evasion and tax payment gap in euro area countries. The third section deals with the main factors under tax morale, which are discovered in existing literature. In the fourth section of this paper a quantitative assessment of tax morale in euro area countries has been revealed and results are presented. Some theoretical ideas that are provided in this paper to some extent have been published by the author (Rutkauskas, Ivaškaitė-Tamošiūnė, 2015), however this article presents a much broader and deeper assessment of tax payment and tax morale questions.

## 1. ECONOMIC MEANING OF TAXATION

Taxes are affecting economy and behavior of tax payers in different ways. As Levine-Schayowitz (2005) states, when governments raise taxes, people alter their behavior and make decisions they would not make otherwise. This suggests that when the behavior of private citizens is affected by a tax, the allocation of resources changes as well. Because taxes raise the prices buyers pay, providing incentives to consume less, and lower the prices sellers receive, providing incentives to produce less, the size of the market shrinks below its optimum level in the sense that revenues raised by government taxation may be less than the distorting market outcomes. Therefore, to understand better the impact of taxation on behavior, it is necessary to consider how taxes influence the prices consumers pay, the quantities consumers demand, and the resulting tax revenues raised. Changes in tax policies also affect decisions to participate in the labor market, choice of occupation, tax avoidance schemes, and degree of tax evasion activities through participation in the formal or informal sector of the economy.

Taxes constitute the main part of public sector income in modern economies. Usually changes in tax collection determine whether the government is running budget surplus or deficit. In case public sector has more income and savings rather than expenditures, public spending towards consumption and investment increases without building up debt. This makes positive contribution to general economy because public spending increases *ceteris paribus* aggregate demand. In case public expenditure remains higher for longer period the widening gap between income and expenditure need to be covered by borrowed funds or decrease in reserves (in case the country has reserves). Both outcomes are generally unwelcome, because growth of debt means increase in debt burden for future generations and usually it is a leading indicator for future tax increases as is proposed by Ricardo – De Viti – Barro equivalence theorem. Thus, economic agents’ decisions whether to pay taxes or not have ultimately direct impact to them as tax payment is directly interlinked with provision of public goods and services and the indebtedness of public sector.



Sources: Eurostat and author’s calculations.

**Figure 1.** Income Sources of General Government in 2014

EU and euro area countries are facing challenges regarding proper public budget collection. From the start of global financial crisis in 2008 till the end of 2015, only several countries in EU (Denmark, Germany, Estonia, Luxembourg, and Sweden) have run budget surplus at least for a year. Notwithstanding robust economic growth in the years before the crisis three fourths of state budgets of EU countries were in deficit. It contradicts general views of countercyclical behavior of public finance and build-up of reserves – thus run budget surplus – in years of economic expansion as mainstreamed economic theories are suggesting. Moreover, it contradicts the agreements made among countries to keep state budget close to balanced (i.e. Maastricht treaty).

Budget deficit is a common issue for the public sector in the aftermath of financial or economic crises. The main reason for this is the increase of public sector expenditures to support faster economic recovery. Such view was presented by J. M. Keynes in times of the Great Depression. However, it could be added (Rutkauskas, 2015) that public borrowing after economic downturn is a consequence of usually enormous building of private debt prior to the bust. Greater flows of consumption and investment during

the boom phase support a faster growth and put economy into a new – greater – level. When economic downturn starts, drop in borrowing and simultaneously in consumption and investment of private sector results in a new – lower – GDP level. To keep economy close to a previous equilibrium the same level of funds is required, however private sector tends to save rather than consume more in bust periods. The crucial role in terms of automatic stabilizers and general expenditure is played by public sector that behaves like a substitute for drop in private sector expenditure (in terms of National Accounts consumption (C) and investment (I) are substituted by government expenditure (G)).

The main share of general government’s income among euro area countries constitutes taxes (see figure 1). Three taxation sources – value added tax, taxes on income and wealth and social contributions – are the main ones as they made up to 83-84 % of total tax income during the period from 2002 to 2015 in euro area countries (ECB). As this paper investigates issues behind tax morale only among household it is important to clarify households share in tax contributions. It is clear that income and wealth taxes as well as social contributions (majority of them) are paid by households. National accounts do not provide final payers of value-added tax and puts it as payment made by total national economy. However, value added tax is recorded as being borne by purchasers, not sellers, and then only by those purchasers who are not able to deduct it. Thus, the greater part of this tax is recorded as being paid on final uses, mainly on households for their consumption (ESA 2010). Based on this, an assumption in this paper is made that all value-added tax has been paid solely by households. Detailed national accounts data reveal that during the period from 2002 to 2015 nearly 77-78% of general government total income in euro area were received as taxes payed by households. Thus, investigation of willingness to pay taxes should be mainly directed to households’ behavior, however before assessing households’ tax morale issues behind tax payment gap is assessed in the next section.

## 2. TAX PAYMENT GAP

Estimating and dissecting the difference between tax due and collected (or simply tax payment/compliance gap) is becoming more common, but remains the exception – even in advanced economies. Measurement of tax payment gap depends on the data and resources available. Two main approaches have been used. First, “bottom-up” approach is based on estimations made from audit results or other operational information. This way is rather costly, but provides direct intelligence on the nature of non-compliance. As K. Raczkowski (2015) argues, this approach rests on selected control and audit methods within the representative group, which is subsequently generalised for the whole population surveyed. Though it should be kept in mind that audits should be limited in their scope but adequately targeted. Nevertheless, they cannot be the most cost-effective form of research into the tax gap, yet they should rely on prospective analyses as part of the audit additionally carried out in the real time.

The second, “top-down” or “macro approach” uses national accounts and other data to model the tax base and estimate revenue under perfect compliance, subtracting actual collections to arrive at the tax payment gap. This has the advantage of using readily publicly available data, but its accuracy depends on data used and may provide little insight into how compliance might be improved (IMF, 2015). K. Raczkowski (2015) adds that the second group of methods do not conduct physical controls on the taxpayer, but rely on tax declarations and other data sources which mostly allow for determination of the tax gap in a less precise manner than physical audits. “Top-down” or “macro approach” contains such methods as: national income-expenditure discrepancy methods, national income-fiscal discrepancy methods, single indicator models (currency-based, electricity use-based, labour force participation, transactions-based) and multiple indicators methods.

The first approach has been used mostly by tax authorities as they hold individual and usually inaccessible to external users data. Thus, the second approach is more common especially by making international comparisons as it is a case of this paper. One of the ways to employ “top-down” or “macro approach” by measuring tax payment gap has been described by K. Raczkowski (2015). Author argues that multiplication of three main components (1) can reveal nominal amount of unpaid taxes, i.e. total tax rate (*TTR*); gross domestic product (in nominal terms; *NGDP*); and size of shadow economy (*SE*), where *i* represents country and *n* – period.

$$TPG_n^i = TTR_n^i * SE_n^i * NGDP_n^i \quad (2)$$

In his paper K. Raczkowski (2015) takes total tax rate as paid by business that excludes taxes such as personal income tax or value added taxes, sales taxes, goods and service taxes. However, the purpose of this paper is to investigate tax morale and compliance of households as they are the main tax payers, thus the total tax rate of business has been changed into a sum of consumption and labor taxes. Results of calculations are presented in Table 1.

**Table 1**

Tax Payment Gap Among Euro Area Households, % of GDP										
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Austria	15,8	16,8	16,3	16,1	16,6	14,9	15,0	14,9	15,1	15,1
Belgium	39,1	40,7	41,3	40,6	40,7	39,4	39,0	40,6	41,4	41,6
Cyprus	1,5	1,7	1,9	2,0	2,1	2,2	2,2	2,3	2,3	2,3
Estonia	1,5	1,7	1,9	2,3	2,8	2,6	2,5	2,7	2,9	3,1
Finland	18,8	18,9	18,9	18,2	18,3	17,9	16,9	16,8	17,8	17,7
France	142,3	144,8	145,7	136,5	135,0	129,4	129,3	129,4	132,5	133,7
Germany	219,4	205,8	198,1	203,2	215,4	213,5	209,1	204,1	212,2	211,3
Greece	25,2	26,5	26,8	27,6	29,1	28,4	26,5	27,5	23,7	24,9
Ireland	11,1	12,3	12,9	12,7	12,7	10,8	10,4	10,4	11,0	11,3
Italy	214,2	216,4	213,0	211,6	216,4	210,3	205,9	210,6	207,2	210,8
Latvia	1,7	1,9	2,2	2,6	3,2	3,0	2,3	2,4	2,7	2,9
Lithuania	2,9	3,0	3,4	3,7	4,4	4,8	3,9	4,1	4,5	4,7
Luxembourg	1,3	1,5	1,7	1,9	2,0	1,9	1,9	2,0	2,1	2,2
Malta	0,5	0,5	0,6	0,6	0,6	0,6	0,6	0,7	0,7	0,8
Netherlands	35,8	36,7	37,1	38,1	37,9	38,3	38,2	39,4	39,3	38,6
Portugal	13,6	13,6	14,2	14,4	14,4	13,9	13,8	14,4	14,9	14,2
Slovakia	3,1	3,5	3,8	3,9	4,8	5,4	5,2	5,5	5,6	5,5
Slovenia	4,3	4,5	4,6	5,0	5,2	5,5	5,2	5,1	5,2	5,0
Spain	84,7	90,7	97,3	100,8	103,0	95,1	92,4	99,4	96,6	94,8
	836,8	841,5	841,5	841,8	864,6	838,0	820,4	832,3	837,8	840,5

Sources: Eurostat, Schneider and author's calculations.

Calculation reveals that during the period from 2003 to 2012 tax payment gap in euro area constituted on average 840 billion euros annually or nearly one fifth of all general government total income. In nominal terms Germany, Italy and France are the biggest losers in terms of tax evasion, however in terms of GDP Estonia, Lithuania and Slovenia are among those with the highest tax evasion rate. More interestingly, comparison of the results of tax payment gap presented in Table 1 and tax payments in terms of GDP (see Figure 1) reveals - contrary to mainstream economic textbooks - the following conclusion: countries with high tax payments (e.g. Finland, France, Austria) are among those with lowest tax payment gap in terms of GDP (accordingly 8,8%, 6,4%, 4,8%). One could expect that higher taxes will result in higher tax evasion, however, as will be investigated in the subsequent sections, tax payment gap or tax evasion are not usually easily explained by tax rate and taxation basis, because in comparison to other factors - like tax morale - they lack explanatory power.

The factors affecting public sector income gathering and budget balancing are important to securing fulfillment of contract among public and private sectors. Thus, tax base, tax rates and taxation systems in general are and will be under high interest in searching for the most efficient taxation model or policy that enables the state to maximize public income. Classical taxation model suggests looking at the tax payer as a decision maker with an aim to maximize benefit. Thus, before paying taxes economic agent performs cost and benefit analysis and looks for two possible options. One of them is not to pay taxes and in case of audit by tax authority to pay fine; the second - to pay taxes. However, a number of unanswered questions remains. For instance, why economic agents tend to pay or not to pay taxes; what are the main factors behind their decisions; how could these factors be influenced; what role could be played by the



government; etc. Based on this, the increasing number of researchers are looking for ways to explain the so-called “soft factors” – other than tax base and rate – behind tax payers’ behavior.

### 3. FACTORS BEHIND TAX COLLECTION

In contemporary economic theory payment of taxes is bilateral agreement between an economic agent and the state, because the latter is basically grounded on that way of funding. Economic agents agree to pay taxes to the state for public goods and security in return. At the same time, economic agents are rational seekers for benefit compared to cost and will try to avoid or minimize tax payment and simultaneously will seek public goods and security. P. Samuelson (1954) argued that the private provision of public goods will be inefficiently low because everyone will have an incentive to “free ride” on the private purchases of others. The theory of general reluctance to pay taxes also brings arguments that are contrary to the concept of conscious taxpayers’ agreement with the state. Fiscal illusion theory adds that rational economic agent realizes the need to have balanced public finance (the expenditures on public goods and security should not exceed income of the state in the long run). Notwithstanding this, a rational economic agent tends to seek financial benefits from the state and not pay for public goods and services via taxes. Thus, this behavior is assessed as irrational.

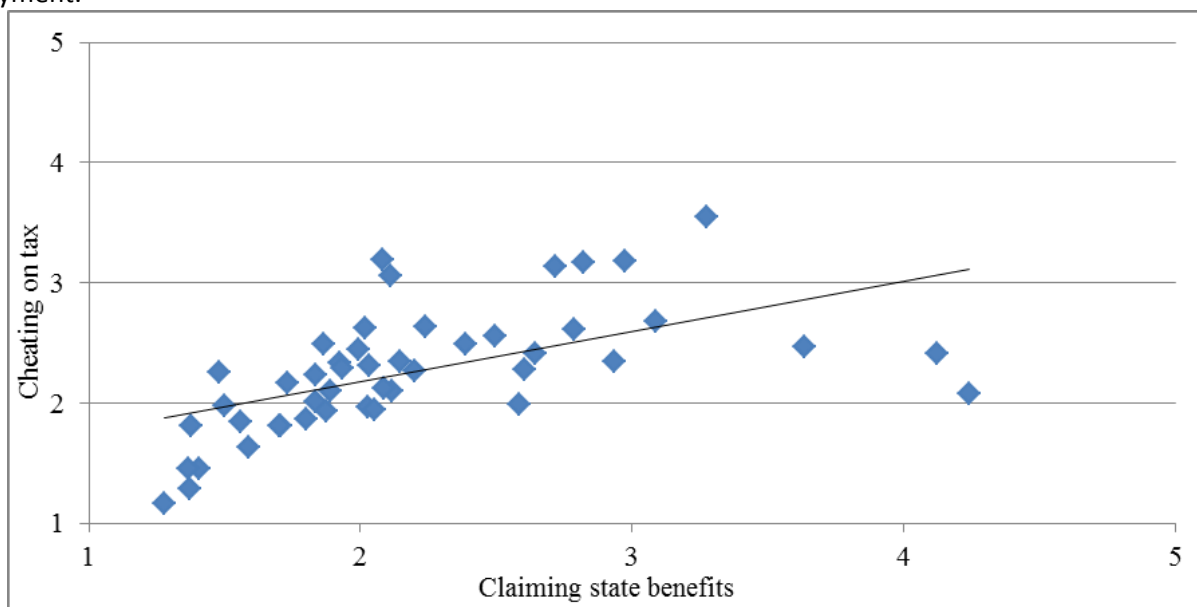
Public sector uses legal powers to force economic agents to distribute part of their income via taxes. There are three possible ways to deal with taxation: 1) agree to pay taxes; 2) evade taxes; 3) avoid taxes. Agreement to pay taxes is not under the aim of this research, thus will not be assessed further in this article. Tax evasion and tax avoidance have at once similar and different meanings that must be clarified. According to the Organization for Economic Cooperation and Development, tax evasion is linked to illegal agreements among parties in order to conceal on taxes or elude for fulfilment tax liabilities. Meanwhile tax avoidance is linked to searching for legal abilities enabling to diminish tax payments (OECD, 2015). For the purpose of this article the differences between tax evasion and tax avoidance are not that important, because the result of general unwillingness to pay taxes is under concern and not the type of it (evasion or avoidance). By taking this into account in scope of this article tax evasion and tax avoidance have been taken as synonyms.

The most famous income tax avoidance model was presented in 1972 by M. Allingham and A. Sandmo. Their research was based on G. S. Becker “Crime and Punishment: An Economic Approach”. In this paper G. S. Becker proposes to look at the tax payment as an optimal portfolio formation exercise, where the tax payer rather chooses to take risky position and not to pay taxes, but faces probability to be audited by tax authority. Or the tax payer can choose a safe portfolio and pay taxes as it is stated in the law. S. Yitzhaki (1974) complemented the model with fine in case the fact of tax evasion is detected. Such approach allows for investigating sensitivity of the tax payer behavior to factors like probability to be audited, fines, tax rate, etc. However, this model receives some critique, which is acknowledged by authors. The weakest point here is an assumption that the tax payer receives benefit only by avoiding paying taxes because the classical model does not consider the economic goods and services that are provided by the state. Thus, the only rational outcome in this case would be to avoid paying taxes and free-ride as suggested by P. Samuelson (1954). This drawback is well perceived by the authors, however because of simplicity it is commonly used to explain unwillingness to pay taxes.

Thus, why are people paying taxes? This question has been raised by J. Alm et al. (1992) and the results of their experiment suggest that compliance occurs because some individuals overweight the low probability of audit, although such overweighting is not universal. The compliance does not occur simply because individuals believe that evasion is wrong since subject behavior is unchanged using either neutral or loaded terms. Moreover, there is evidence that individuals pay taxes because they value the public goods that their taxes finance. An increase in the amount that individuals receive from a given tax payment increases their compliance rate. At this stage, it should be noted that individuals exhibit a remarkable diversity in behavior. They sometimes appear to overweight low probabilities, they sometimes appear to be risk-seeking, they are on occasion cooperative, and at other times they are free-riders.

Recent research results in tax payment field recognize that models like M. Allingham and A. Sandmo (1972) lack explanatory power in some occasions. It is suggested that behavioral economics theory could add to the classical model more realistic factors like psychological comfort, prestige of paying taxes and others. C. Daude et al. (2012) explain that tax morale is based on aspiration to be honest with the state and other tax payers and trust of government. Contrary, dishonesty and distrust towards government is directly

linked to tax evasion. For instance, poor quality of public goods could be perceived by tax payer as dishonest behavior by the authorities and thus result in unwillingness to buy public goods by avoiding tax payment.



Sources: European Value Study (2008) and author’s calculations.

Note: growth in number represents greater justification.

**Figure 2.** Relation of Cheating on Tax and Claiming State Benefits

Factors behind willingness to pay taxes have been investigated differently by several authors (Slemrod, Yitzhaki, 2002; Slemrod, Weber, 2012). T. O. Weber et al (2014) claims that the main challenge investigating tax morale is criminal background of such activity. Models and field experiments confirm positive relation among quality of public goods and willingness to pay taxes. Also, correlation is found among tax payment and social norms like belonging to a social group, country, patriotism, justice. Field experiments confirm that relations between tax payers and tax collectors as robbers and police do not encourage paying taxes, thus should be avoided.

#### 4. QUANTITATIVE ASSESSMENT OF TAX PAYMENT

Among the number of the issues that are challenging assessment of tax avoidance is criminal background of such activity. Thus, a scarcity of data is common for research in the field of tax morale. One of commonly used sources is World Values Survey (WVS) and European Values Study (EVS) data. These globally performed regular surveys investigate respondents’ opinion in different fields like living conditions, family, religion, society, policy, economy, etc. J. Martinez-Vazquez, B. Torgler (2005), J. Alm, B. Torgler (2006), B. Torgler, F. G. Schneider (2006), I. Lago-Peñas, S. Lago-Peñas (2010) have used WVS and EVS data for investigating tendencies among willingness to pay taxes and other indicators. WVS and EVS are based on the common methodology, thus data are comparable among time and countries.

As a dependent variable for analysis the individual answers to question “Cheating on taxes if you have a chance” are taken with possible answers varying from 1 (“never”) to 10 (“always”). Considering that the data of answers are categorical variables, according to D. Gujarati (2014) simple linear regression is not suitable and instead logit-probit regression model should be used. Moreover, such approach is supported by a number of researchers in tax morale field. The summary of previously made research in tax morale field (see Table 2) shows that the main independent variables are age, gender, religiousness, employment, marital status, trust in public institutions, democracy.

**Table 2**

Quantitative Assessment of Factors Behind Tax Morale

Reference	Sample and econometrics	Tested variables	Significant variables
B. Torgler (2005)	Switzerland. Data from the ISSP. Year 1998. Weighted	Gender, age, marital status, education, employment status, personal income, church	Education (+) Students and pensioners (+) Trust in court and legal system

Reference	Sample and econometrics	Tested variables	Significant variables
	ordered probit estimation	attendance, direct democracy, trust in court and legal system, tax rate, fine rate and audit probability, culture variables (language dummy variables)	(+) Religiousness (+) Democracy (direct) (+)
J. Martínez-Vázquez, B. Torgler (2005)	Spain. Data from WVS and EVS. Years 1981, 1990, 1995 and 1999/2000. Weighted ordered probit estimation.	Gender, age, marital status, employment status, religiousness, trust in the parliament, national pride, time dummy variables	Tax morale is stronger in the 90's than in the 80's Age and religiousness (+) Upper-class individuals (-) Trust in the parliament and national pride (+)
J. Prieto et al. (2006)	Spain. Data from the ISSP. Year 1998	Gender, age, marital status, education, self-employed, social class, size of municipality of residence, voted political party	Age (+) Self-employed (-) Voters to nation-wide parties (+)
B. Torgler, F. G. Schneider (2006)	Spain, Switzerland and Belgium. Data from the WVS (1995-97) and the EVS (1999-2000). Weighted ordered probit estimation	Gender, age, marital status, education, employment status, social class, personal income, church attendance, direct democracy, national pride, trust in political institutions and government, attitude towards democracy, personal income tax rate, fine rate and audit probability (for Switzerland), culture variables (regional and language dummy variables).	Cultural and regional differences affect tax morale in both Switzerland and Spain Trust in legal system, government, and parliament, national pride, and pro-democratic attitudes (+) Religiousness (Belgium and Switzerland) (+) Direct democracy (Switzerland) (+) Women (+)
B. Torgler (2006)	32 world countries (mainly EU). Data from the WVS (1995-1997). Weighted ordered probit estimation	Gender, age, marital status, education, employment status, social class, financial situation, risk aversion, religiousness (church attendance, religious education, active in church group, importance of religion, religious guidance, trust church), corruption, trustworthiness	Religiousness (+) Age (+) Risk aversion (+) Upper-class individuals (-) Financial satisfaction (+) Retired, home workers, and part time employed (+) Women (+) Married (+) Living together (-) Education (-) Trustworthiness (+) Perceived corruption (-)
J. Alm, B. Torgler (2006)	USA and Spain. Data from the WVS. 1999-2000. Common cross-country slopes are imposed. Weighted ordered probit estimation	Gender, age, marital status, education, employment status, church attendance, trust in parliament, country dummy variables	Tax morale is lower in Spain than in the USA Age (+) Religiousness (+) Women (+) Married (+)
J. Alm, B. Torgler (2006)	16 EU countries. Data from the WVS (1990-93). Common cross-country slopes are imposed. Weighted ordered probit estimation	Gender, age, marital status, employment status, church attendance, country dummy variables	Age (+) Religiousness (+) Self-employed (+) Pensioners (+) Married (+)
R. G. Cummings et	Botswana (1999) and South Africa (2000).	Gender, age, education, employment status, country	Age (+)



Reference	Sample and econometrics	Tested variables	Significant variables
al. (2007)	Data from Afrobarometer. Common cross-country slopes are imposed. Ordered probit estimation	dummy variables	

**Source:** author based on LAGO-PEÑAS I.; LAGO-PEÑAS S. (2010). The Determinants of Tax Morale in Comparative Perspective: Evidence from European Countries. *European Journal of Political Economy*, 26(4).

For the researchers in tax morale field it is common to use dichotomous (binary) instead of multinomial logit-probit regressions. According to B. Torgler, F. G. Schneider (2006), the main reason behind this is lack of depended categorical indicators to perform reliable analysis. To explain the main factors behind tax payers' behavior for every combination of variables at least 20% of opposite indicators should appear (the same rule is applied in other types of logit-probit regressions). Otherwise the explanatory power of model decreases sharply. However, some categories are lacking data to ensure this 20% rule, thus it is common to use dichotomous instead of multinomial logit-probit regressions. On the one hand this ensures explanatory power of the model, on the other hand data received from WVS and EVS are based on surveys, thus on the opinions of the respondents and not on the factual data. This is especially important for tax morale research as the object contains criminal activity.

Research of tax morale factors in euro area countries is based on WVS and EVS data. 86 surveys on individual households for all 19 euro area countries were made starting from 1981 to 2013. The most covered country with 8 surveys during the above mentioned period is Spain and the least – Greece and Luxembourg. Data received for every single country have been assessed separately by applying dichotomous logit-probit regression analysis. 10 independent variables (based on the results from earlier research presented in Table 1) and one dependent variable have been taken to investigate the importance of different factors to tax morale for every single euro area country and 3-6 are selected as significant. The significance of independent variables is based primarily on the measure of p-value. The suitability of the whole model is assessed not by coefficient of determination as it is common for linear regressions, but by the share of classified cases. The case is assessed as classified, when the results received by the model are the same as collected during the survey. As D. Gujarati (2014) suggests, more than 50% of classified cases by the model allows for assessing the model as suitable.

Moreover, independent variables of the model are assessed by the odds ratio. The odds ratio is a specific ratio for logit-probit models and shows how dependent variable (in this case cheating on taxes if you have a chance) could change in case one of the independent variables will increase by 1 and all others will remain unchanged. The odds ratio is defined as the ratio of the probability of success  $P(Y=1)$  and failure  $P(Y=0)$  or  $P(Y=1)/P(Y=0)$ . This ratio is assumed as the main one in assessing the importance of independent variables to assess a dependent one. The value of the odds ratio could vary from close to 0 (in case probability of failure is approaching 100) to infinity (in case probability of success is approaching 100). By analyzing the dependent variable, it is important to observe whether the value of the independent variable odds ratio is below or above 1. In case the odds ratio is 1, the probabilities of success and failure are equal to 0.5. Growth of value of the independent variable by 1 with the odds ratio below 1 means that the dependent variable has higher probability to success ( $P(Y=1)$ ) than to failure ( $P(Y=0)$ ). Contrary, growth of value of the independent variable by 1 with the odds ratio above 1 means that the dependent variable has lower probability to success ( $P(Y=1)$ ) than to failure ( $P(Y=0)$ ). The results of logit-probit regression analysis for each country are presented below in alphabetical order.

The surveys in *Austria* have been conducted in 1990, 1999 and 2008. The main factors behind tax evasion as suggested by dichotomous logit-probit regression analysis are perception of corruption, national pride, religion and marital status. All these factors are statistically significant (the only exception is for national pride factor in 2008, where p-value reached 0.12) and ensures 69-72 % of positive cases by the models. Based on the odds ratio the most significant factor behind tax evasion is perception of corruption – the more person will tend to accept a bribe, the more one will try to evade paying taxes. The case of *Austria* suggests that citizens who are less proud of their nation will tend to evade taxes more, as is the

case with religiousness as well. Moreover, not married or single persons have greater probability to avoid taxes.

The surveys in *Belgium* have been conducted in 1981, 1990, 1999 and 2009. The main factors behind tax evasion as suggested by dichotomous logit-probit regression analysis are gender, national pride, trust in parliament, and perception of corruption. All these factors are statistically significant (based on p-value) and ensures 66-71% of positive cases by the models. Based on the odds ratio the most significant factor behind tax evasion is perception of corruption – the more person will tend to accept a bribe, the more one will try to evade paying taxes. The case of Belgium suggests that citizens who are less proud of their nation or whose trust in parliament is low will tend to evade taxes more. Moreover, men have greater probability to avoid taxes than women in Belgium.

The surveys in *Cyprus* have been conducted in 2006, 2008 and 2011. The main factors behind tax evasion as suggested by dichotomous logit-probit regression analysis are perception of corruption, national pride, religion, and employment status. Not all factors are statistically significant for Cyprus, however they all have been kept in model to ensure consistency among years and substantial share of positive cases (79-90%). Based on the odds ratio the most significant factor behind tax evasion is perception of corruption – the more a person will tend to accept a bribe, the more one will try to evade paying taxes. The case of Cyprus suggests that citizens who feel less proud of their nation will tend to evade taxes more, as is the case with religiousness as well.

The surveys in *Estonia* have been conducted in 1990, 1996, 1999, 2008 and 2011. The main factors behind tax evasion as suggested by dichotomous logit-probit regression analysis are perception of corruption, national pride, religion and marital status. All these factors are statistically significant and ensure 66-76% of positive cases by the models. Based on the odds ratio the most significant factor behind tax evasion is perception of corruption – the more a person will tend to accept a bribe, the more one will try to evade paying taxes. The case of Estonia suggests that citizens who feel less proud of their nation will tend to evade taxes more. Moreover, male and younger persons have greater probability to avoid taxes.

The surveys in *Finland* have been conducted in 1981, 1990, 1996, 2000, 2005 and 2009. The main factors behind tax evasion as suggested by dichotomous logit-probit regression analysis are perception of corruption, age, gender, and religion. All these factors are statistically significant as measured by p-value and ensures 66-70% of positive cases by the models. Based on the odds ratio the most significant factor behind tax evasion is perception of corruption – the more a person will tend to accept a bribe, the more one will try to evade paying taxes. The case of Finland suggests that more religious citizens tend to evade taxes less. Moreover, women and older persons have lesser probability to avoid taxes in Finland.

The surveys in *France* have been conducted in 1981, 1990, 1999, 2006 and 2008. The main factors behind tax evasion as suggested by dichotomous logit-probit regression analysis are perception of corruption, age, gender, and national pride. All these factors are statistically significant as measured by p-value and ensures 66-70% of positive cases by the models. Based on the odds ratio the most significant factor behind tax evasion is perception of corruption – the more a person will tend to accept a bribe, the more one will try to evade paying taxes. The case of France suggests that people with higher national pride tend to evade taxes less. Moreover, women and older persons have lesser probability to avoid paying taxes.

The surveys in *Germany* have been conducted in 1981, 1990, 1997, 1999, 2006, 2008 and 2013. The latest survey is not suitable for this research, because there were no data on dependent variable, thus summary of the results bellow is given from 6 surveys. The main factors behind tax evasion as suggested by dichotomous logit-probit regression analysis are perception of corruption, age, status of employment, and national pride. All these factors are statistically significant as measured by p-value and ensures 67-76% of positive cases by the models. Based on the odds ratio the most significant factor behind tax evasion is perception of corruption – the more a person will tend to accept a bribe, the more one will try to evade paying taxes. Close to the odds ratio of perception of corruption in Germany is national pride – the more proud a person feels of their nation, the more taxes they will pay. The case of Germany suggests that unemployed persons or those with lower salaries will tend to evade taxes less. Moreover, older persons have lesser probability to avoid taxes.



**Table 3**

Variation of the Odds Ratios of the Most Important Factors

Country	Gender	Age*	Marital status	Level of education	Employment status	Income	Religiosity	Confidence in Parliament	National proud	Acceptance of bribe
Austria			1.1-1.2				1.2		1.3-1.6	1.9-2.5
Belgium	0.6-0.8							1.3	1.3	1.3-1.4
Cyprus					0.9-1.1		1.2		1.2-1.4	2.6-4.5
Estonia	0.6-0.8	1.0							1.2-1.4	1.5-7.0
Finland	0.5-0.7	1.0					1.2-1.6			1.9-2.3
France	0.6-0.7	1.0							1.2-1.5	1.3-1.5
Germany		1.0			0.9-1.1				1.2-1.5	1.4-3.0
Greece									1.2	1.5-2.0
Ireland	0.6-0.7	1.0							1.4-1.8	1.7-2.3
Italy		1.0							1.2-1.3	1.2-2.8
Latvia	0.7	1.0							1.1-1.3	1.5-2.0
Lithuania		1.0				0.9-1.1			1.3-1.5	1.3-2.8
Luxembourg				1.2-1.3						1.4-1.8
Malta							1.4-2.2			2.3-5.7
Netherlands	0.6-0.8	1.0								1.6-3.4
Portugal		1.0					1.2			1.3-3.2
Slovakia		1.0							1.1-1.5	1.4-2.2
Slovenia	0.6-0.8	1.0							1.2-1.5	2-10
Spain		1.0					1.2-1.3		1.2-1.5	1.7-3.3

Source: author’s calculations.

\* the odds ratio for age is 0.94-0.99.

The surveys in *Greece* have been conducted in 1999 and 2008. The main factors behind tax evasion as suggested by dichotomous logit-probit regression analysis are perception of corruption and national pride. All these factors are statistically significant (with exception for national pride for the year 1999 as p-value exceeds 0.05 threshold) and ensures 65-77% of positive cases by the models. Based on the odds ratio the most significant factor behind tax evasion is perception of corruption – the more a person will tend to accept a bribe, the more one will try to evade paying taxes. Moreover, the case of Greece suggests that persons with higher national pride will tend to avoid cheating on taxes more.

The surveys in *Ireland* have been conducted in 1981, 1990, 1999 and 2008. The main factors behind tax evasion as suggested by dichotomous logit-probit regression analysis are perception of corruption, age, gender, and national pride. All these factors are statistically significant as measured by p-value and ensures 66-70 % of positive cases by the models. Based on the odds ratio the most significant factor behind tax evasion is perception of corruption – the more a person will tend to accept a bribe, the more one will try to evade paying taxes. The case of Ireland suggests that the more citizens feel proud of their nation, the less they will tend to evade taxes. Moreover, women and older persons have lesser probability to avoid taxes.

The surveys in *Italy* have been conducted in 1981, 1990, 1999, 2005 and 2008. The main factors behind tax evasion as suggested by dichotomous logit-probit regression analysis are perception of corruption, age, and national pride. All these factors are statistically significant as measured by p-value and ensures 65-72 % of positive cases by the models. Based on the odds ratio the most significant factor behind tax evasion is perception of corruption – the more a person will tend to accept a bribe, the more one will try to evade paying taxes. The case of Italy suggests that citizens with greater national pride tend to evade paying taxes less. Moreover, older persons have lesser probability to avoid taxes.

The surveys in *Latvia* have been conducted in 1990, 1996, 1999 and 2008. The main factors behind tax evasion as suggested by dichotomous logit-probit regression analysis are perception of corruption, age, gender and national pride. All these factors are statistically significant (with exception of one year’s model for national pride indicator) as measured by p-value and ensure 70-76 % of positive cases by the models. Based on the odds ratio the most significant factor behind tax evasion is perception of corruption – the

more a person will tend to accept a bribe, the more one will try to evade paying taxes. The case of Latvia suggests better tax collection from those persons who feel greater national pride. Moreover, women and older persons have lesser probability to avoid taxes.

The surveys in *Lithuania* have been conducted in 1990, 1997, 1999 and 2008. The main factors behind tax evasion as suggested by dichotomous logit-probit regression analysis are perception of corruption, age, income and national pride. All these factors are statistically significant as measured by p-value and ensures 65-74% of positive cases by the models. Based on the odds ratio the most significant factor behind tax evasion is perception of corruption – the more a person will tend to accept a bribe, the more one will try to evade paying taxes. The case of Lithuania suggests that national pride plays a significant role for citizens in making decision to pay or not to pay taxes: higher national pride is directly linked to stronger tax payments. Moreover, persons with higher income tend to avoid taxes more.

The surveys in *Luxembourg* have been conducted in 1999 and 2008. The main factors behind tax evasion as suggested by dichotomous logit-probit regression analysis are perception of corruption and level of education. All these factors are statistically significant as measured by p-value and ensures 60-67% of positive cases by the models. Based on the odds ratio the most significant factor behind tax evasion is perception of corruption – the more a person will tend to accept a bribe, the more one will try to evade paying taxes. The case of Luxembourg suggests that tax evasion increases in line with growth of education level.

The surveys in *Malta* have been conducted in 1983, 1991, 1999 and 2008. The main factors behind tax evasion as suggested by dichotomous logit-probit regression analysis are perception of corruption and religion. All these factors are statistically significant as measured by p-value and ensures 83-86% of positive cases by the models. Based on the odds ratio the most significant factor behind tax evasion is perception of corruption – the more a person will tend to accept a bribe, the more one will try to evade paying taxes. The case of Malta suggests that more religious citizens tend to evade taxes less.

The surveys in *Netherlands* have been conducted in 1981, 1990, 1999, 2006, 2008 and 2012. The main factors behind tax evasion as suggested by dichotomous logit-probit regression analysis are perception of corruption, age and gender. All these factors are statistically significant as measured by p-value and ensures 63-74% of positive cases by the models. Based on the odds ratio the most significant factor behind tax evasion is perception of corruption – the more a person will tend to accept a bribe, the more one will try to evade paying taxes. The case of Netherlands suggests that older citizens will tend to evade taxes less (however the last survey showed slightly opposite estimations). Moreover, women tend to avoid taxes less.

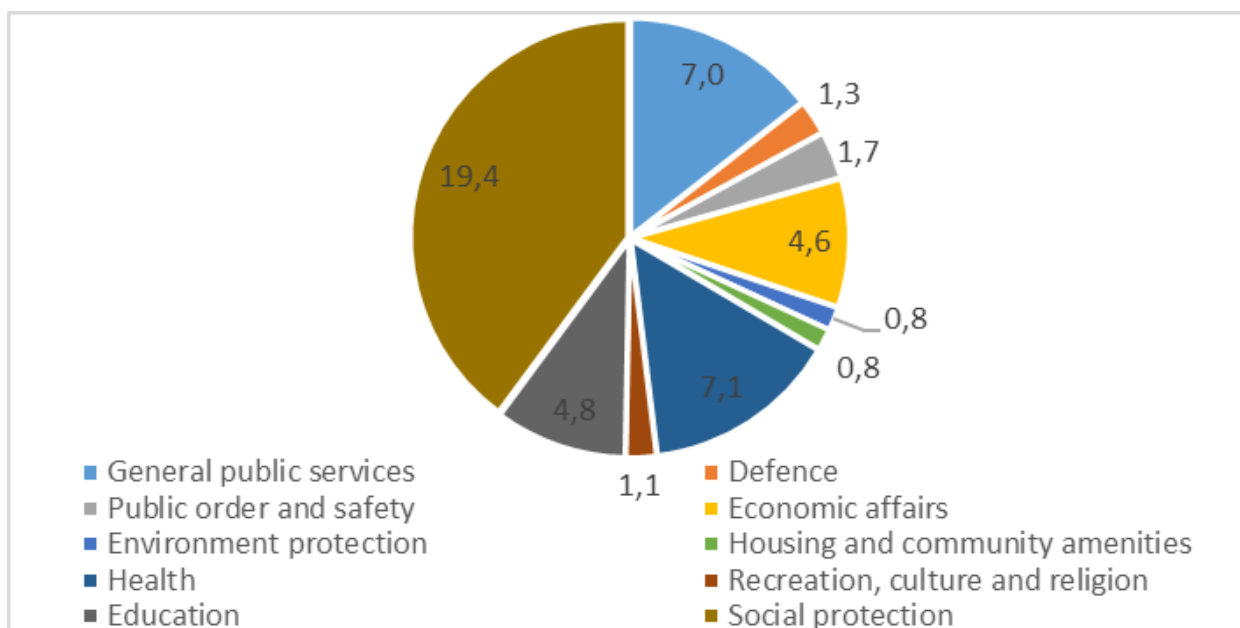
The surveys in *Portugal* have been conducted in 1990, 1999 and 2008. The main factors behind tax evasion as suggested by dichotomous logit-probit regression analysis are perception of corruption, age and religiousness. All these factors are statistically significant as measured by p-value (except for the age in the last survey) and ensures 61-79 %of positive cases by the models. Based on the odds ratio the most significant factor behind tax evasion is perception of corruption – the more a person will tend to accept a bribe, the more one will try to evade paying taxes. The case of Portugal suggests that more religious and older people tend to avoid taxes less.

The surveys in *Slovakia* have been conducted in 1991, 1998, 1999 and 2008. The main factors behind tax evasion as suggested by dichotomous logit-probit regression analysis are perception of corruption, age and national pride. All these factors are statistically significant as measured by p-value (except age for the first survey) and ensures 64-76% of positive cases by the models. Based on the odds ratio the most significant factor behind tax evasion is perception of corruption – the more a person will tend to accept a bribe, the more one will try to evade paying taxes. The case of Portugal suggests that older people and those with greater national pride tend to avoid taxes less.

The surveys in *Slovenia* have been conducted in 1992, 1996, 1999, 2005, 2008 and 2011. The main factors behind tax evasion as suggested by dichotomous logit-probit regression analysis are perception of corruption, gender, age and national pride. All these factors are statistically significant as measured by p-value (except gender for the fourth survey) and ensures 68-86% of positive cases by the models. Based on the odds ratio the most significant factor behind tax evasion is perception of corruption – the more a person will tend to accept a bribe, the more one will try to evade paying taxes. The case of Slovenia suggests that women, older people and those with greater national pride tend to avoid taxes less.

The surveys in *Spain* have been conducted in 1981, 1990, 1995, 1999, 2000, 2007, 2008 and 2011. The main factors behind tax evasion as suggested by dichotomous logit-probit regression analysis are perception of corruption, age, religiousness and national pride. All these factors are statistically significant as measured by p-value (except religiousness for the fourth survey) and ensures 65-80% of positive cases by the models. Based on the odds ratio the most significant factor behind tax evasion is perception of corruption – the more a person will tend to accept a bribe, the more one will try to evade paying taxes. The case of Spain suggests that older, more religious citizens and those with greater national pride tend to avoid taxes less.

The results of tax morale analysis in all euro area countries suggest that the main factors behind weak tax payment are those of corruption, weak national pride; younger tax payers tend contribute to tax payments less than more educated ones and with higher income. Also, religiousness has a direct strong positive link to willingness to pay taxes (see Table 3). Furthermore, what outcomes could be expected for the general economy in case of improvement of tax morale? Annual tax payment gap in euro area is almost equal to half of the yearly budget devoted to social protection, it exceeds the total budget of euro area for health or for public services or almost two-year budget for education (see Figure 3). To close the tax payment gap completely is nearly impossible, however to decrease it by employing measures to strengthen tax morale is feasible. Thus, growth of households’ share willing to pay taxes by 4 percentage points in euro area will benefit in funding environment protection budget; growth by 5 percentage points – budget of recreation, culture and religion; growth by 6 percentage points equals to funding of annual defence budget. Greater tax morale means a lower tax payment gap that in return gives better or greater public goods and services for the same households.



Sources: Eurostat and author’s calculations.

**Figure 3.** General Government Expenditure Structure in Euro Area, Average of 2006-12, % of GDP

These empirically assessed variables of tax morale in euro area countries are guidelines for tax authorities in particular and public sector in general by seeking to increase tax collection. As robust results of this research suggest (all regressions have more than 50% of positive cases) the main efforts to increase tax collection should be directed towards ways to fight corruption and foster national pride. More efforts of national authorities investigating tax evasion should be given to men and younger citizens. Additionally, more educated persons and those with higher income tend to evade taxes more; however, this has been evidenced only for some of the countries under investigation. Moreover, religiousness is closely linked to proper payment of taxes.

According to T. Weber et al (2014) tax morale could be increased by signing “tax payers honor code” as this in general will increase dependence to society (thus national pride). Trust in government and tax authority plays noticeable role for tax morale, thus the image of public institutions should find place in the agenda. Moreover, quality of public goods is not the least important factor to be considered while making



decisions to pay or not to pay taxes, thus quality of goods as well as quality of the institutions themselves should be constantly monitored and improved (in part it is linked to corruption). T. Weber et al (2014) continues that public institutions with reputation of coercive mechanism should find the way to earn the reputation of high quality service providers. E. F. Luttmer and M. Singhal (2014) add that cooperation between the state and an individual tax payer increases tax morale, as well as dependency to the group and cultural effects which in the long run could lead to higher tax compliance. Also, for tax authorities it should be important to investigate in more detail tax payers that are younger and male, with higher education and higher income. As this research suggests and as other authors confirm payment of taxes could be increased not only by making pressure to tax payers, but also by employing soft measures.

## CONCLUSIONS

1. The main share of public sector income constitutes tax contributions. However, rational economic agents tend to simultaneously avoid tax payments and consume public goods. According to this research, unpaid taxes constitute nearly one fifth of all tax income receivable or nearly one tenth of nominal GDP. Classical models of unwillingness to pay taxes are not always able to explain factors behind the weak tax morale and empirical results in this paper suggest that higher taxes expenditure negatively correlates with tax payment gap suggesting contradiction among mainstream thinking. Thus, the gap in this field is filled with alternative methods suggested by tax morale research and is assessed quantitatively by employing dichotomous logit-probit regression analysis.
2. The results of tax morale analysis in all euro area countries suggest that the main factors behind weak tax payments are corruption and weak national pride. More attention of national authorities while investigating tax evasion should be given to men and tax payers of younger age. Additionally, more educated persons and those with higher income tend to evade taxes more; however, this has been evidenced only for some of the countries under investigation. Also, religiousness has a direct strong positive link (especially in some countries) to willingness to pay taxes. Based on the results of this research, it could be confirmed that the main factor under weak tax morale in euro area is corruption, which additionally is closely interlinked with shadow economy.
3. Systematic assessment of factors behind weak tax payment is guidelines for public authorities in the field of greater tax morale in the country. Different measures like tax payer honor code, better quality of public goods, greater trust in the state, patriotism and community should be employed to increase tax morale. After employing different measures public sector could expect closing the gap between the real collection of taxes and planed tax collection, thus ensuring better standing of public finance and abilities to provide goods and services. For example, growth of households' share willing to pay taxes by 4 percentage points in euro area will benefit in funding environment protection budget; growth by 5 percentage points – budget of recreation, culture and religion; growth by 6 percentage points equals to funding of annual defence budget.

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# DETERMINANTS OF BEING AN ENTREPRENEUR IN POLAND: HOW THE PAST INFLUENCES THE PRESENT

**WERONICA BORUC**

*PhD Candidate, Graduate School for Social Research at the Polish Academy of Sciences  
72 Nowy Świat, 00-330 Warsaw, Poland*

**ABSTRACT.** The question of what determinants are most important in the formation of entrepreneurs has been intriguing many researchers. Most of them focus either on attitudinal factors (such as risk-tolerance, self-reliance), current motivations or material situation. This study reaches into the past in order to determine its influence on the present. Three determinants are taken into consideration: having entrepreneurial family and friends; having potential financial resources; and having experience of seeking employment. Using POLPAN panel data collected since 1988 makes it possible to analyse their impact throughout the last 25 years. The results indicate a significant impact of family history, financial history and occupation history on the probability of being an entrepreneur in 2013. The evidence of continuity of entrepreneurial class in Poland is astonishing considering the substantial changes in the country since 1989: the political and economic transition.

## INTRODUCTION

The role of entrepreneurs has always been considered significant, if not crucial, for the development of economy. The main value of entrepreneurship lies in that it boosts creation of employment and can lead to production and expansion of innovation (Van Praag, Versloot, 2007).

That is why it is of a great importance to establish what causes people to become entrepreneurs, e.g. in order to see whether this process might be structurally supported. The objective of this study is to analyse the importance of three different determinants situated in the past: environment (family history and friends), potential of obtaining financial resources in the past, and unemployment experience.

It is important to clarify who we understand as entrepreneurs. There have been many difficulties with defining this group. Some researchers argue that it might be impossible to achieve a common definition (Gartner 1985; Gartner 1990). For Schumpeter, who sacrificed a lot of thought on the entrepreneur in his economic theory, the most important aspect was innovation leading to “revolutionize the pattern of production” (Schumpeter 2003, p. 132). W. B. Gartner (1985) in his article *Who is an Entrepreneur Is the Wrong Question* presents more than 20 different definitions coined by different researchers until 1988, varying from somewhat strict “a major owner and manager of a business venture not employed elsewhere” by Brockhaus, to much wider: “A person who organizes and manages a business undertaking assuming the risk for the sake of profit” by Hull, Bosley and Udell (Gartner 1988, p. 49-56).

A review of current literature on the subject indicates that there is still no consensus on who exactly should be called an entrepreneur. An important discrepancy concerns people who are not owners of firms but are self-employed. Some researchers argue that they should not be taken into consideration, as in their case there is no variable capital generating added value (Chmielewski 1998: 66). Nevertheless, many studies include them in research on entrepreneurship (cf. Blanchflower, Oswald, 1998; Dawson, Henley, 2012; Kirkwood, 2009).

In POLPAN survey programme the definition of entrepreneurs is relatively clear, although it should be noticed that it is the respondents who declare themselves as entrepreneurs, and that piece of information is not verified at later stages of the study.

Respondents are asked detailed questions about their professional careers (including the field of work, duration of current and previous occupations, average incomes, etc.). They can identify their jobs as either “regular employment”, “regular self-employment” or “other types of work”. Within the “regular self-employment” category the distinction is made between “Regular self-employment on a farm...”, “Regular self-employment in one’s own company (firm) as an owner, co-owner, leaseholder or partner, also permanent help in a family-run business” and lastly “Other regular self-employment ‘for one’s own account’, ‘to line one’s pocket’”<sup>1</sup>

<sup>1</sup> POLPAN questionnaires are available on <http://polpan.org/data-and-documentation>

I decided to focus on the middle category, namely the firm owners or co-owners. I rejected farmers, as this is a very specific type of business which is usually inherited and which is defined by a different set of characteristics (cf. Osborn, 2007). I also decided not to include those who declared themselves as self-employed “for one’s own account” because this category consists mostly of people who do not run a firm but work alone often for larger companies and therefore significantly differ from the group I identify as entrepreneurs.

It must be explained at this point why the category of entrepreneurs – firm owners and co-owners – includes the phrase “also permanent help in a family-run business”. Many businesses in Poland are opened officially under somebody else’s name (often family members’), usually for tax and financial responsibility purposes. This phrase was added into POLPAN questionnaires after pilot studies which indicated that it would help to “capture” entrepreneurs running firms in such semi-official way.

## 1. WHAT MAKES AN ENTREPRENEUR

Various determinants have been taken into account while analysing the phenomenon of entrepreneurship. Some studies focused on the influence of material situation (e.g. possibility of raising capital, receiving of an inheritance or a gift) on opening a business (Blanchflower, Oswald, 1998). Many other analysed various attitudes which characterize entrepreneurs, such as risk tolerance or self-reliance (e.g. Xu, Ruef, 2004; Vereshchagina, 2009; Osborn, Slomczynski, 1997). People’s motivations (positive and negative) were described as “push” and “pull” factors for becoming entrepreneurs (Kirkwood, 2009; Schjoedt, Shaver, 2007). There were also studies trying to determine whether it is nature (namely: genetics) or nurture (parents’ role-modelling) that makes entrepreneurs (Shane *et al.*, 2008; Lindquist *et al.*, 2015; White *et al.*, 2007).

I will focus on three possible factors grounded in the past, enhancing or impeding the possibility of becoming an entrepreneur.

Firstly, I will analyse the influence of the environment, whether having family members or ancestors who owned business in the past or friends who own businesses in the past, compared with friends and family who own businesses currently. I hypothesize that there is a significant correlation between these factors and being an entrepreneur in 2013.

Then I will analyse the impact of having potential financial resources in the past (*i.e.* being able to obtain a certain amount of money within a week without difficulty) into running a business 2013. I hypothesize that there is a significant positive correlation between having potential financial resources and becoming an entrepreneur.

Finally, I will analyse the correlations between having periods of unemployment in the past and being an entrepreneur in 2013. I hypothesize that there is a significant negative correlation between declaring periods of “job search” and running a company later in life. I will also run logistic regressions in order to establish the significance of such unemployment experience when other variables such as age, gender and education are controlled.

In my study I am using data collected in the Polish Panel Survey POLPAN since 1988 in 5-year intervals (“waves”) on large random samples representing population of adult Poles (the youngest respondents are aged 21). POLPAN is the longest ongoing study of this kind in Central and Eastern Europe and is unique in many ways: the scope of questions varies from socio-demographic information to attitudes concerning the politics and norms in society.<sup>2</sup>

For the purpose of my research I will use data from waves 1993, 1998, 2003, 2008 and 2013. The group of entrepreneurs I will analyse will be those who declared themselves as firm owners or co-owners in wave 2013.

It is important to notice that changes of characteristics of group of entrepreneurs can be observed throughout the POLPAN waves.

The most numerous age groups shift steadily in time from 31-35 and 36-40 in 1993 to 41-45 and 46-50 in 1998, 46-50 and 51-55 in 2003, etc. In 2013, the most numerous group (20.39%) was 56-60 years olds, but at the same time almost 30% of entrepreneurs were between 21-30 years of age.

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<sup>2</sup> Description of methodology of POLPAN study is available on: <http://polpan.org/data-and-documentation/methodology/>



With the ongoing professionalization of entrepreneurship (Osborn, Słomczyński, 1997) the proportion of entrepreneurs with higher education is increasing.

The structure of gender balance remains more or less stable, the majority of male entrepreneurs varying between 58%-70% with 64% in 2013.

The fields of business activity are very diverse, from providing legal and accounting services to construction firms. However running stores and other trade facilities has been the most popular activity throughout the last decades, and remained so in 2013.

## 2. THE INFLUENCE OF THE ENVIRONMENT

It does not seem surprising that growing up in entrepreneurial environment would be positively correlated with owning a business in the future. Recently researchers Lindquist and van Praag proved the significance of parents' role modelling for children's entrepreneurship (LINDQUIST et al., 2015). What might be, however, considered remarkable, is how far in time this influence reach.

In POLPAN questionnaire from 1993 wave the following question was asked “Did any of your close relatives – we mean here grandparents, parents, siblings and children – run for at least a year a business, a firm or an enterprise during the period from 1938 to 1988?” It is a unique question concerning four generations of immediate family members. It covers 50 years of history ranging from before the World War II to the end of the socialist regime in Poland.

Despite all that has happened in Poland since 1938, namely the war, the political turmoil, two economic transitions and entry into the European Union, the positive answer to this question is still positively correlated with being an entrepreneur in 2013 in a very significant way ( $r=0.1620$ ,  $p<0.001$ ).

It is interesting to interpret these findings in the light of earlier studies on political and economic transition in Poland and a relative stability of the class of owners throughout them. In an article published in 1996 sociologists Bogdan Mach and Kazimierz Słomczyński proved that 74% of those who were owners (excluding farmers) in 1988 declared the same occupation in 1993 (Mach, Słomczyński 1996, p. 157). Out of 9 other groups (top managers, middle managers, lower managers, experts, service employees, skilled workers, farmers) only the occupation of farmers, traditionally considered as hereditary, showed a similar level of stability (72%). This continuity could be considered a sign of a low level of openness of the entrepreneurial class.

**Table 1**

Correlation of being an entrepreneur with having entrepreneurial friends or family

	Friends and/or family owning businesses correlated with being an entrepreneur in 2013			Partial Correlation (accounting for the effect of duration of running current business)
	r	p	n	
Family owning a business in 1938-1988	0.1620	0.0008	422	0.1665
Friends owning businesses in 1993	0.1269	0.0102	409	0.1384
Friends or family owning businesses in 2013	0.1387	0.0000	1343	0.1381

It is important to notice that a strong relationship between having an entrepreneurial family in the past and running a company in 2013 is maintained even when the year of opening of the business is controlled. I ran a logistic regression with this variable, controlling also such basic characteristics as age, sex and education. The results of logistic regression indicate that having such a family makes it almost three times more probable to become an entrepreneur (Odds Ratio = 2.7375,  $p<0.005$ ), controlling for duration of running current business, gender, age (centred) and education (counted in years).



**Table 2**

Logistic regression of being an entrepreneur in 2013 and having entrepreneurial family (controlling for year of opening business, gender, age and higher education)

```
. logit employer_current_2013 family_38_88_1993 how_long_this_business gender01 age_centr_2013 edu_years_19
> 93, vce(robust) or
```

```
Iteration 0:  log pseudolikelihood = -155.4292
Iteration 1:  log pseudolikelihood = -146.02003
Iteration 2:  log pseudolikelihood = -144.88803
Iteration 3:  log pseudolikelihood = -144.88393
Iteration 4:  log pseudolikelihood = -144.88393
```

```
Logistic regression                Number of obs   =      421
                                Wald chi2(5)    =      22.21
                                Prob > chi2      =      0.0005
Log pseudolikelihood = -144.88393  Pseudo R2     =      0.0678
```

employer_current_2013	Odds Ratio	Robust Std. Err.	z	P> z	[95% Conf. Interval]	
family_38_88_1993	2.737576	.9620759	2.87	0.004	1.374756	5.451386
how_long_this_business	1.00287	.0110572	0.26	0.795	.9814308	1.024778
gender01	1.958247	.6616437	1.99	0.047	1.009874	3.797236
age_centr_2013	1.003099	.0267624	0.12	0.908	.9519932	1.056948
edu_years_1993	1.149412	.0541039	2.96	0.003	1.048115	1.260499
_cons	.0123689	.0088484	-6.14	0.000	.0030437	.0502643

In order to see whether the occupation of other members of close environment also have significant relationship with being an entrepreneur in 2013, I ran basic correlation tests on variables concerning friends. In 1993, the question the respondents were asked was as follows: "Among your close friends is there a person who is an owner or co-owner of a firm or runs a business outside farming?" As we can see in Table 1, the positive answer to this question is positively correlated with being an entrepreneur in 2013 ( $r=0.1269$ ,  $p<0.05$ ) and is maintained even when we take into account the effects of duration of running of current business.

A logistic regression served to verify the impact of having friends running a company in 1993 on the probability of being an owner of a firm in 2013 (controlling for year of opening business, age, gender and education). As we can see having such friends increases the odds almost two times (Odds ratio=2.054,  $p<0.5$ ). Despite the fact that it is impossible to determine a clear causal direction of the relationship (whether people became owners in 2013 because they had entrepreneurial friends in 1993), the distance of twenty years indicates that entrepreneurial social networks are solid in time.

**Table 3**

Logistic regression of being an entrepreneur in 2013 and having entrepreneurial friends in 1993 (controlling for gender, age and higher education)

```
. logit employer_current_2013 friends_owners_1993 how_long_this_business gender01 age_centr_1993 edu_years_
> 1993, vce(robust) or
```

```
Iteration 0:  log pseudolikelihood = -151.76505
Iteration 1:  log pseudolikelihood = -143.89283
Iteration 2:  log pseudolikelihood = -143.34685
Iteration 3:  log pseudolikelihood = -143.34507
Iteration 4:  log pseudolikelihood = -143.34507
```

```
Logistic regression                Number of obs   =      408
                                Wald chi2(5)    =      18.23
                                Prob > chi2      =      0.0027
Log pseudolikelihood = -143.34507  Pseudo R2     =      0.0555
```

employer_current_2013	Odds Ratio	Robust Std. Err.	z	P> z	[95% Conf. Interval]	
friends_owners_1993	1.849493	.6943683	1.64	0.101	.8860943	3.860338
how_long_this_business	1.009984	.0117555	0.85	0.393	.987204	1.033289
gender01	1.82868	.6218046	1.78	0.076	.9390837	3.560993
age_centr_1993	1.012747	.0280286	0.46	0.647	.959275	1.069199
edu_years_1993	1.134008	.0584641	2.44	0.015	1.02502	1.254585
_cons	.0140899	.0115759	-5.19	0.000	.0028157	.0705073



In order to compare the strength of relationship of having entrepreneurial environment in or before 1993 and having firm owners among friends and family in 2013, I also ran a correlation test on variable based on 2013 wave of POLPAN. The question in 2013 was one in a whole series concerning friends and family: "Are there people among your friends, close acquaintances and family members (outside your household) who have a company and hire employees?" It is interesting that the correlation of being an entrepreneur in 2013 with having entrepreneurial friends and family in 2013 ( $r=0.1387$ ,  $p<0.001$ ) is only slightly stronger than the one with having friends owning businesses in 1993 ( $r=0.1269$ ,  $p<0.05$ ). The difference is just as insignificant when we compare partial correlations (respectively 0.141 and 0.134) which account for the effect of the duration of running business.

However, a logistic regression shows that having friends and family owning companies in 2013 makes it almost 3 times more probable to be an entrepreneur in 2013, as compared to slightly less than 2 times in the case of friends in 1993 (controlling for year of starting business, age and gender).

**Table 4**

**Logistic regression of being an entrepreneur in 2013 and having entrepreneurial friends or family in 2013 (controlling for gender, age and higher education)**

```
. logit employer_current_2013 friends_owners_2013 how_long_this_business gender01 age_centr_2013, vce(robust) or
> t) or
```

```
Iteration 0:  log pseudolikelihood = -359.83695
Iteration 1:  log pseudolikelihood = -339.72865
Iteration 2:  log pseudolikelihood = -337.96961
Iteration 3:  log pseudolikelihood = -337.96631
Iteration 4:  log pseudolikelihood = -337.96631
```

```
Logistic regression                Number of obs   =       1329
                                Wald chi2(4)     =       36.20
                                Prob > chi2         =       0.0000
Log pseudolikelihood = -337.96631  Pseudo R2      =       0.0608
```

employer_current_2013	Odds Ratio	Robust Std. Err.	z	P> z	[95% Conf. Interval]
friends_owners_2013	2.957368	.6801534	4.71	0.000	1.88426 4.641623
how_long_this_business	.9944729	.0095421	-0.58	0.564	.9759454 1.013352
gender01	1.589965	.3456516	2.13	0.033	1.038341 2.434642
age_centr_2013	1.029439	.0085468	3.49	0.000	1.012824 1.046328
_cons	.0443079	.012427	-11.11	0.000	.0255708 .0767746

These results can be interpreted as an indication of the strength of the influence of the environment onto the career choices. The surprisingly strong relationship of family history of entrepreneurship reveals a certain continuity and stability of the entrepreneurial class in Poland.

### 3. THE INFLUENCE OF HAVING POTENTIAL FINANCIAL RESOURCES

The role of money in business creation has been emphasized by many researchers. Włodzimierz Wesołowski argues that three resources are necessary for becoming a new entrepreneur: knowledge, positive attitude towards risk and investment capital (Wesołowski 1996). Potential entrepreneurs asked by Blanchflower and Oswald point to difficulties in raising capital as the crucial obstacle impeding them from starting a business (Blanchflower, Oswald, 1998).

I will analyse the correlation between having the possibility of obtaining financial resources in the past and being an entrepreneur in 2013.

Information concerning potential financial resources was collected by asking respondents a series of questions, the first being: "Imagine that you are asked to pay [an amount of] zlotys for something that you want to have very much. Would you be able to pay this amount in a week?" Then further similar questions followed with larger and smaller amounts of money, in order to determine the largest sum the respondent was able to easily obtain.

The amount of money changed between waves: in 1993 the first question asked about 2 million PLN (current purchasing power about 1500 PLN = about 370 USD). In 1998 the first question was about 400 PLN, and those who answered "yes" were further asked about 800 PLN (current purchasing power about 1500 PLN). The amounts of money remained the same for the next waves, but the purchasing power of 800 PLN gradually decreased (currently: about 200 USD).



Considering those changes I decided to take into account those amounts of money which had the closest value, *i.e.* for wave 1993 I considered whether or not respondents were able to obtain at least 2 million PLN, for waves 1998-2008: at least 800 PLN.

My hypothesis was that the possibility of obtaining such an amount of money will be significantly correlated with being an entrepreneur in 2013.

It should be noted that the analysed sums of money are relatively low and are on the level of minimal monthly wage (800 PLN in 2003) or lower (current minimal wage in Poland is 1850 PLN). Therefore it would be an exaggeration to say that such financial resources can be considered as a significant investment capital. Nevertheless, the results of my study show that the possibility of obtaining even a relatively low sum of money is positively correlated with running a business in the future.

**Table 5**

Correlation of having potential financial resources in the past with being an entrepreneur in 2013

	Correlation of Potential Financial Resources with being Entrepreneur in 2013			Partial Correlation (accounting for the effect of duration of running current business)
	r	p	n	
2008	0.1303	0.1026	158	0.1243
2003	0.1714	0.0001	521	0.1711
1998	0.2551	0.0000	521	0.2611
1993	0.1830	0.0002	420	0.1785

As we can see, going back in time does not decrease the significance of the correlation. On the contrary, the results of correlation with the wave 2008 is the weakest. It might be, however, the result of a significant in the of POLPAN questionnaire for wave 2008: only part of respondents were asked the question about potential financial resources. That is why there are far less matchings between 2013 and 2008 than between 2013 and 1993, despite the 20 years difference between the two latter waves.

The strongest correlation is between being an entrepreneur in 2013 and being able to obtain at least 800 PLN within a week fifteen years earlier, in 1998. The second strongest is the correlation between being able to obtain 2 million PLN in 1993 and being an entrepreneur twenty years later.

I ran a logistic regression in order to verify the significance of this relationship while variables such as gender, age and education are controlled. The results are very strong: being able to obtain financial resources in 1993 makes it almost 3 times more probable to be an entrepreneur twenty years later.

**Table 6**

Logistic regression of being an entrepreneur in 2013 and having potential financial resources in 1993 (controlling for age, education and gender)

```
. logit employer_current_2013 get_2mln_1993 gender01 age_centra_1993 edu_years_1993, vce(robust) or
```

Iteration 0: log pseudolikelihood = -157.26778  
 Iteration 1: log pseudolikelihood = -146.94042  
 Iteration 2: log pseudolikelihood = -146.14148  
 Iteration 3: log pseudolikelihood = -146.13931  
 Iteration 4: log pseudolikelihood = -146.13931

Logistic regression

Log pseudolikelihood = -146.13931

Number of obs	=	420
Wald chi2(4)	=	29.88
Prob > chi2	=	0.0000
Pseudo R2	=	0.0708

employer_current_2013	Odds Ratio	Robust Std. Err.	z	P> z	[95% Conf. Interval]
get_2mln_1993	2.982629	1.084325	3.01	0.003	1.462674 6.082062
gender01	1.469785	.4843179	1.17	0.243	.7704938 2.803745
age_centra_1993	1.015395	.0266378	0.58	0.560	.9645055 1.06897
edu_years_1993	1.129982	.0578914	2.39	0.017	1.022027 1.249339
_cons	.0149106	.0110863	-5.66	0.000	.0034722 .0640294

These results might be interpreted through the dynamics of Polish economic transformation. The period of 1993-1998 can be considered as the advanced stage of economic transition in Poland, five to ten years after the introduction of the Law on Economic Activity of 1988, crucial for opening private businesses





(OSBORN 2007, p. 94). However, it must be noted that the difference both in strength and significance between correlation with potential financial resources in 1993 and 2003 is minimal ( $r=0.183$  and  $r=0.171$ ), therefore it might be argued that the beginning of the 20<sup>th</sup> century can be also considered as a good time for opening businesses.

#### 4. INFLUENCE OF UNEMPLOYMENT EXPERIENCE

Occupational career is at the heart of interests of POLPAN study. Respondents are asked detailed questions concerning their consecutive employments, as well as periods of unemployment.

In order to analyse the relationship between running a business in 2013 and experience of unemployment, I decided to use variables based on questions about looking for employment during the 5-year period between the waves.

In 1993, the question was phrased as follows: "Have you happened to seek employment anytime during the period from January 1988 until today?" In 1998, the question concerned years 1993-1998, in 2003 – 1998-2003. A different wording of question occurred in 2008: respondents were asked "Have you ever sought employment?" For panel respondents the answers concerned the last 5 years (2003-2008), for new respondents – all the time until 2008.

Running simple correlation tests shows that having experience of seeking employment in the past is negatively correlated with being an entrepreneur in 2013. The results vary between  $-0.0834$  and  $-0.1355$  with  $p<0.06$ . What is surprising is that the correlation does not weaken the further we go back in time. On the contrary, the experience of a job search between 1998 and 2003 has the strongest relationship with being entrepreneur in 2013 ( $r= -0.1355$ ).

**Table 7**

Correlation of being an entrepreneur in 2013 with periods of seeking employment in the past.

	Correlation of job search within last 5 years with being an entrepreneur in 2013			Partial Correlation (accounting for the effect of duration of running current business)
	r	p	n	
2008	-0.0978	0.0082	729	-0.0844
<b>2003</b>	<b>-0.1355</b>	0.0019	521	<b>-0.1377</b>
1998	-0.0834	0.0570	522	-0.0840
<b>1993</b>	<b>-0.1123</b>	0.0210	422	<b>-0.1107</b>

In order to interpret these differences in strength of the correlations it is useful to consider the unemployment rates in Poland at that time. We can distinguish three waves of higher unemployment rates peaking in 1994, in 2003 and the last one (linked with global economic crisis) in 2013 (see Table 2). The 5-year periods which have the strongest negative correlation with being an entrepreneur in 2013 are 1988-1993 and 1998-2003. Both of them are on the "upwards slopes" of the unemployment waves, when the unemployment rates were rising. On the other hand, the two periods with the weakest correlation (1993-1998 and 2003-2008) are on the "downwards slopes" meaning gradual lowering of the level of unemployment. This pattern is maintained also with partial correlations taking into account the effect of the year of opening business.

That could lead to a conclusion that in some periods, when the unemployment rates were rising, the experience of unemployment had a larger significance for the future career, and in the periods when the job market situation started to improve, the experience had less importance. A tentative interpretation of this pattern might be that entrepreneurs are more successful even in a more difficult job market situation, perhaps because it is them who employ people. They might even take advantage of high unemployment rates in order to lower wages or hire more people.



Source: Central Statistical Office of Poland.<sup>3</sup>

**Figure 1.** Unemployment in Poland: 1990-2013.

In order to analyse the influence of having an experience of looking for a job anytime in life, I decided to create dichotomous variables based on answers in four consecutive POLPAN waves 1993-2008.

The first variable concerns people who have ever looked for a job between 1988-2008. We see that the negative correlation is significant (-0.0946,  $p < 0.005$ ). It is even stronger in partial correlation taking into account the effect of the year of opening business: -0.01288.

In the second variable we see those who answered that they did not look for a job in all waves 1993-2008, *i.e.* they declared they have never had such an experience. The correlation with being entrepreneur in 2013 is positive (0.1496,  $p < 0.0005$ ), and also slightly stronger in partial correlation (0.1567).

**Table 8**

Correlation of being an entrepreneur in 2013 with having experience of seeking employment any time between 1988-2008.

	Correlation of job search between 1988-2008 with being an entrepreneur in 2013			Partial Correlation (accounting for the effect of duration of running current business)
	r	p	n	
Yes	-0.0946	0.0035	949	-0.1288
No	0.1496	0.0002	619	0.1567

In order to determine the influence of having experience of seeking employment onto the probability of becoming an entrepreneur, I ran a logistic regression, controlling such variables as the duration of running current business, age, education and gender. The results show that the chances of running a company in 2013 are almost 63% smaller for those who had periods of looking for a job in the past.

This might seem to contradict studies describing unemployment as one of the factors "pushing" people into entrepreneurship (Ritsila, Tervo, 2002). However, most of these studies include self-employed people into the category of entrepreneurs. It is possible that broadening the definition of entrepreneurs would slightly diminish the strength of the results of my calculations. Nevertheless, the significance of the negative correlation of having periods of job search in the last 25 years with running a company in 2013 is undeniable.

<sup>3</sup> Data available at: <http://stat.gov.pl/obszary-tematyczne/rynek-pracy/bezrobocie-rejestrowane/stopa-bezrobocia-w-latach-1990-2016,4,1.html>

**Table 9**

Logistic regression of being an entrepreneur in 2013 and having experience of seeking employment at any time between 1988-2008 (controlling for gender, age, and duration of running current business).

```

. logit employer_current_2013 job_search_88_08 how_long_this_business gender01 age_centr_2013, vce(robust)
> or

Iteration 0:  log pseudolikelihood = -280.94388
Iteration 1:  log pseudolikelihood = -267.85777
Iteration 2:  log pseudolikelihood = -267.00151
Iteration 3:  log pseudolikelihood = -266.99888
Iteration 4:  log pseudolikelihood = -266.99888

Logistic regression              Number of obs   =          943
                                Wald chi2(4)    =          27.00
                                Prob > chi2     =          0.0000
Log pseudolikelihood = -266.99888  Pseudo R2      =          0.0496
    
```

employer_current_2013	Odds Ratio	Robust Std. Err.	z	P> z	[95% Conf. Interval]	
job_search_88_08	.3697558	.0999969	-3.68	0.000	.2176285	.6282235
how_long_this_business	.9912662	.0100508	-0.87	0.387	.9717615	1.011162
gender01	1.441328	.3490713	1.51	0.131	.8966285	2.31693
age_centr_2013	1.028575	.0097212	2.98	0.003	1.009697	1.047806
_cons	.1425991	.0373225	-7.44	0.000	.0853751	.2381783

## CONCLUSIONS

1. It is analysed the influence of factors based in respondents' past onto their present occupation, namely on the fact of running a business in 2013. A series of statistic tests proved that all three determinants chosen by me - having a family and/or friends who ran businesses in the past; having potential financial resources in the past; and having experience of seeking employment in the past - have a significant relationship with being an entrepreneur in the present. The strength of correlation of having members of immediate family who ran business in the past with the present occupation indicates a continuity of the entrepreneurial class throughout generations. The fact how significant it was to be able to obtain even relatively small amounts of money for becoming an entrepreneur confirms that raising capital might be one of the most important obstacles in opening a business. Finally, the negative influence of having periods of job search within the last 25 years on running a business defies the assumption that unemployment leads to creation of new firms. All those results contribute to the thesis on the persistency of the entrepreneurial class in Poland.

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## THE ECONOMIC APPROACH IN CALCULATING THE LEVEL OF DEMOCRATIC DEVELOPMENT

**VITALII TUKALO**

*PhD Candidate, Graduate School for Social Research, Polish Academy of Sciences,  
Nowy Świat 72, 00-001 Warsaw, Poland*

**ABSTRACT.** The study pays attention to several indicators whose dynamics may indicate the level of democracy in a country, namely the increase (or decrease) of the labor force and income per capita. While it is stated in Przeworski's works that a particular political system can result in increasing income per capita, or labor force, I suggest paying attention to the possibility of retroactive effect - namely, to determine the level of democratic development of the country based on the two aforementioned economic factors.

**KEYWORDS:** democracy, Adam Przeworski, Central Europe, GDP per capita.

### INTRODUCTION

The development of democracy in each country is treated as a priority for a state policy along with ensuring sustainable economic growth. At the same time, in most cases, these two problems are treated as separate, therefore sometimes their interdependency is neglected. On the other hand, the existing methods of estimating the level of democratic development are rather subjective and do not reflect the real situation in many cases. The importance of the realistic approach to the social, political and economical processes cannot be neglected as well as the interdependence of these three spheres. The article is proposed to evaluate the level of democratic development based on the real economic data. This idea firstly appeared in Adam Przeworski's works, however it still remains underdeveloped. The aim of the article is to show one of the possible ways in which the level of democratic development can be calculated using the economic indicators.

### 1. THE OVERVIEW OF THE PRZEWORSKI'S CONCEPTION

Democracy, as a social regime is as object of interest of many scientists. The important place in the problematic of democracy research is occupied by the transition processes, the social changes and the conditions that allow for such kind of transition. The very definition of 'democracy' is not defined strictly which provides a wide range of explanations depending on the chosen aspect of the problem. This fact also allows for explaining the basics of the democracy in a different manner, justifying or criticizing the way of development and the decisions which can be made by the government in one country or another. From this perspective, one can find that the approach proposed by the American political scientist with polish roots Adam Przeworski is quite interesting. There is a question arisen in the works of Przeworski (for instance, "Democracy and Development") that deals with the influence of the democratic institutions on the economic development of the country. Przeworski is trying to explain for which countries democracy is a positive issue and for which ones it is not by showing the examples of Taiwan and Indonesia where the high level of economy goes along with the authoritarian regime. On the other hand, the conclusion that was made by Przeworski pointed out that democracy does not influence the economy directly: "Democracy is neither positive nor negative with respect to economic development" and: "There is a little support for a strong positive causal relation between democracy and development"<sup>4</sup>. At the same time Przeworski clarified in his studies that there are two indicators, the dynamics of which may indicate the level of democracy in countries. However, Przeworski deals with two countries as examples, namely Mali and France, comparing respective factors in both of countries. These factors include an increase of the labor force, technical development and per capita income: "What we learned, therefore, is that regimes have no impact on the rate of growth of capital stock while labor force grows faster under dictatorships. In turn, democracies enjoy faster technical progress and use labor somewhat more effectively, while dictatorships

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<sup>4</sup> Przeworski Adam. 2000. „Democracy and Development”, Cambridge University Press, – 340p.

exploit somewhat better their capital stock"<sup>5</sup>, and: "What matters is not the total growth but of per capita income. Per capita income grows faster under democracy"<sup>6</sup>.

In this article I propose to approach the Przeworski's offer from two perspectives. From the one side, I tend to accept the idea of Przeworski about the rankings, made by Freedom House and similar ranking agencies. Przeworski mentions that those rankings do not reflect the real situation: "They (Freedom House – V.T.) rate countries according to whether people are free to do things. So the United States rank close to the top. Americans are free to form political parties, they are free to vote. But they do not form political parties, and half the population does not vote even in presidential elections. In this spirit we should be asking how many parties are there, and do they propose how often poor people compete and get elected, etc.? However, that is not what Freedom House does. I see Freedom House as a product of American ideology"<sup>7</sup>. Going in this direction, the second perspective which I would like to point out is the idea of calculating the level of democracy, based on the real data of economy that seems to be worthwhile. However, one should take into account that the fact that this idea is relatively new it demands verification. The two variables that are proposed to be selected are the size of the labor force and GDP per capita. Here I see the necessity to explain the peculiarities of the selected variables. Przeworski writes about per capita income that has to grow faster under democracy, but per capita income, especially calculated in local currency does not reveal the real situation because the level of prices is also different in different countries. That is why I propose to use GDP per capita in purchasing power parity which allows for minimizing the misleading comparisons between countries.

The verification of the hypothesis about the influence of economic factors on the level of democracy is an important part of the contemporary understanding of the conception of democracy. However, this hypothesis seems to make sense, keeping in mind that in a wider context, democracy is understood as a right and a possibility to make a free choice or a right to refrain from making a choice and not only in political sphere. In democratic countries citizens have a right to choose a place for living, for work, a right to participate (or not to participate) in public life. The ranking agencies usually use the declarative rights of citizens to make a decision often without taking into account whether citizens really use these rights or not. There is a bigger probability that the average rationally behaving citizen de-facto uses his right in economic sphere because the outcome of the decision that was or was not made is a possible income or a loss of money, so the estimation of the level of democracy on the basis of economic factors in this sense could be more effective, comparing with the previous methods.

## 2. THE CALCULATINGS OF THE LEVEL OF DEMOCRACY

The computation of the dynamic average of the workforce could be the first step of calculating the so-called 'democracy coefficient'.  $X_i$  is a number of workforce in a year  $i$  and  $n$  is a total number of observations.

$$\Delta X_1 = X_2 - X_1; \Delta X_2 = X_3 - X_2; \Delta X_3 = X_4 - X_3; \dots; \Delta X_{i-1} = X_i - X_{i-1}.$$

$$\Delta \bar{X} = \frac{\sum \Delta X_i}{n-1} \quad (1)$$

In this case, the  $\Delta \bar{X}$  means the average value of the additional employees which were employed in economy for the last  $n$  years. If we calculate the average income per capita (in the prices of the last year or in PPP<sup>8</sup>), which can be computed as follows

$$\bar{Y} = \frac{\sum Y_i}{n} \quad (2)$$

<sup>5</sup> Przeworski, Adam, and Fernando Limongi. 1993. "Political Regimes and Economic Growth." *Journal of Economic Perspectives*, 7(3): 51-69.

<sup>6</sup> Przeworski, Adam, and Fernando Limongi. 1993. "Political Regimes and Economic Growth." *Journal of Economic Perspectives*, 7(3): 51-69.

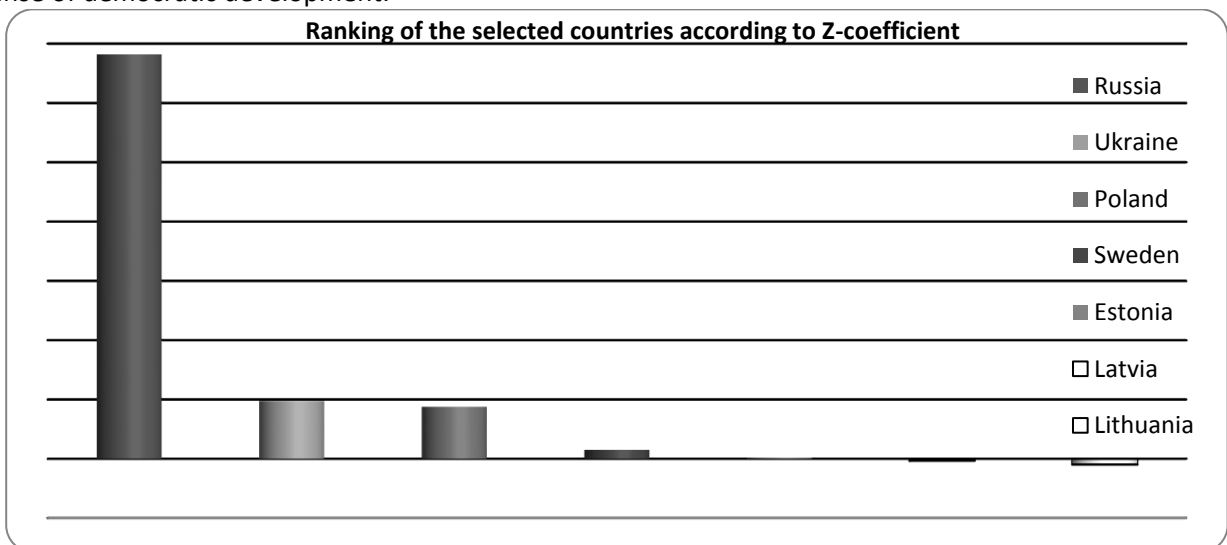
<sup>7</sup> Przeworski, Adam. 2003. "Capitalism, Democracy and Science", *Passion, Craft and Method in Comparative Politics.*, New York, New York, February 24, 2003.

<sup>8</sup> Purchasing power parity

and then find the quotient by dividing the  $\Delta\bar{X}$  into the  $\bar{Y}$ , we obtain the value that shows how many additional workers should be employed in order to raise the average income per capita (GDP per capita) for one dollar. According to the hypothesis, this value would be as low as possible in democratic countries whereas with the lower level of democracy, the value would increase. On the basis of the known research and the literature of the subject, I could not find any previous usage of this method. The final formula will look as follows:

$$Z = \frac{\frac{\sum \Delta X_i}{t-1}}{\frac{\sum Y_i}{t}} \quad (3)$$

I propose to see the results of the simulations on the example of seven countries. I have chosen Poland, Ukraine, Russia, Latvia, Lithuania, Estonia and Sweden for several reasons. First of all, six countries out of seven represent post-communist bloc, however with their own peculiarities. Poland has never been a part of the USSR, whereas Latvia, Lithuania, Estonia, Ukraine and Russia have been. The Baltic countries, despite the fact that they were a part of the USSR left the Union in the first row and now show an example of successful democratic transition in the region. Ukraine on the other hand barely used the chance to conduct an efficient policy towards the European values. The one thing that has to be specified is that the existing data does not allow for estimating the outcomes of the Revolution of Dignity, so the calculated Z-coefficient shows the situation from the pre-revolutionary period. The example of Russia is interesting in the light of the long-term rule of Vladimir Putin and the lack of real democratic progress. It is even more interesting, because Russia theoretically contains all the elements of the democratic state such as elections (one can argue if they are free or not, but the President who was elected is recognized by all the other states that we used to call 'democratic'), media and other. In reality, Russia is often a target of the criticism because of the lack of democracy. Sweden is rather an example of a stable democratic state that can be a good background to compare with. Unfortunately I did not manage to find any data about Belarus; it would be also interesting to see what the state under the rule of the 'last European dictator' looks like in the sense of democratic development.



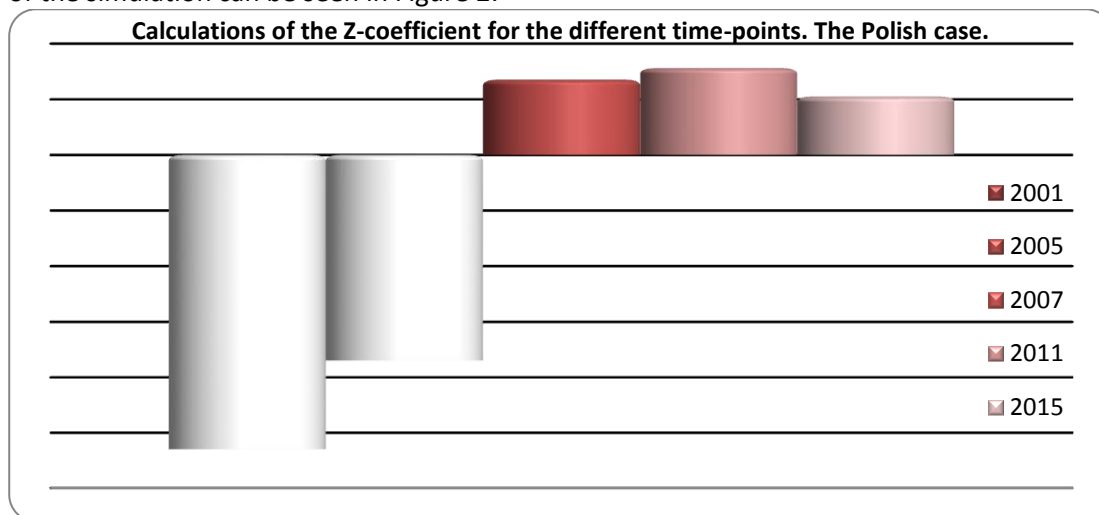
Source: author's elaboration

**Figure 1.** Ranking of the selected countries according to Z-coefficient.

As can be seen from the Figure 1, the value of the Z-coefficient is the lowest for Lithuania that theoretically could reflect the highest level of democracy among the selected countries. It is interesting, but in this case, the value of Z-coefficient is negative for all of the Baltic states, going up above zero even in the case of Sweden. As it was supposed, the value of the coefficient is high in case of Russia whereas in case of Ukraine the value remains lower. As it was mentioned previously in this article, the data about Ukraine allows for conducting an experiment up to 2013. For this reason, the time period for all the other countries was also shortened for thirteen years (2000-2013). After the Revolution of Dignity, occupation of Crimea and the Russian-Ukrainian war it is not possible to estimate the real influence of the two selected factors. The statistics that is provided by the Ukrainian State Statistical Bureau about the size of the labor force does not take into account Ukrainian citizens who live in Crimea (and do not resign from Ukrainian

citizenship) and in occupied territories of Donbas. At the same time some enterprises that are located in Crimea or Donbas and were registered there before the war or are a part of bigger companies re-registered in the territories controlled by Ukrainian government. As a result, there is a drastic increase of GDP per capita from 2013 in the situation of a real economic decrease that of course does not reflect the real situation.

As one of the specific cases I propose to look how the situation in Poland has been changing over the years. The elections to the Parliament were selected for time points. It is important to specify that during the modeling of the Z-coefficient each subsequent period also included the previous period. The results of the simulation can be seen in Figure 2.



Source: author's elaboration

Figure 2. The Polish case of the calculations of the Z-coefficient.

As can be seen from Figure 2, the value of Z deviates around zero, maximizing in 2014. Despite the fact that the minimal value was calculated for 2001 and it has been increasing till 2011, it does not mean that Poland is in its way out of democracy. The deflections are a rather normal situation in a country where government and a president change, new legislation is being adopted, etc.

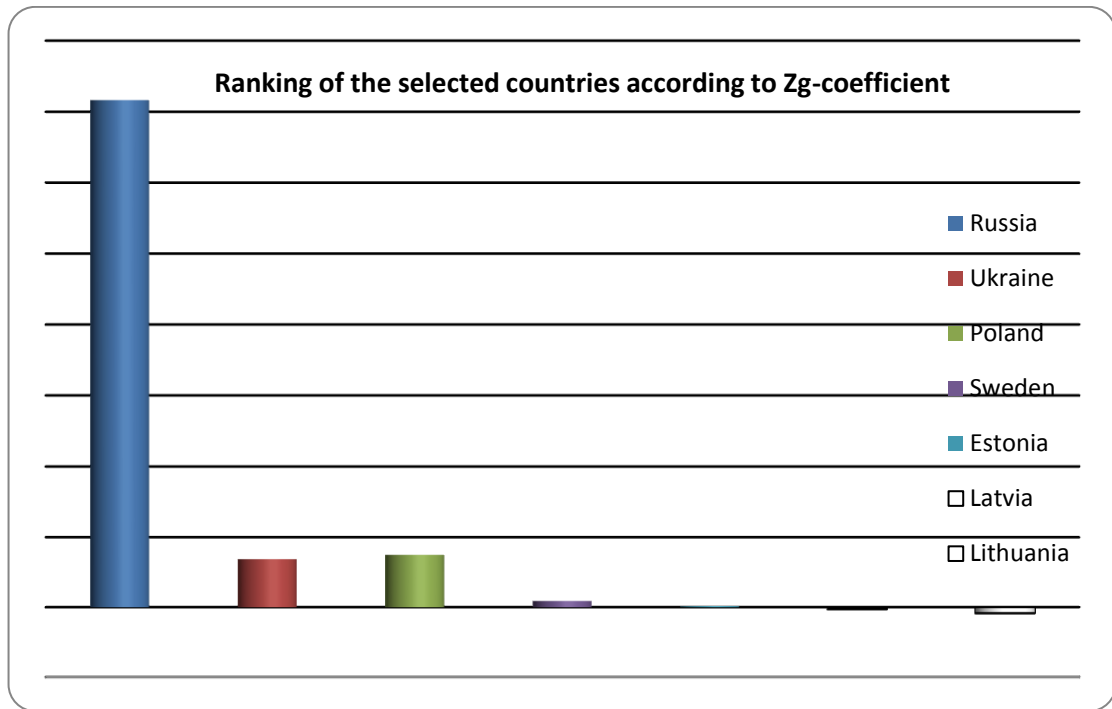
Nevertheless, the illustrated method has its own blind sides. First of all I would like to point out the fact that democracy in its origin assumes equality. However, in reality it could barely be reachable; as examples of many countries that are supposed to be democratic show, democracy provides several mechanisms that are aimed to equalize the distribution of social goods. The most valuable of those mechanisms are, of course, free elections. It is supposed that an average citizen, taking into account his rational behavior, will vote for the best option that increases his quality of life. As far as the notion of the 'quality of life' is too general and can be interpreted in many ways<sup>9</sup>, the ultimate aim of elections is a reconfiguration of financial streams in a country, both in short and long-term perspective. That is why the author proposes to take into consideration also the equality of distribution of income. As one of the possible options I propose to use a Gini coefficient. In this case, the formula will look as follows

$$Z_g = G \frac{\sum \Delta X_i}{\frac{t-1}{\sum Y_i}} \quad (4)$$

The results of the modeling situation are presented in Figure 3.

<sup>9</sup> One can vote for 'green' party to have a clean air or for feminist's movement instead of voting for socialists and expect more money from the government.

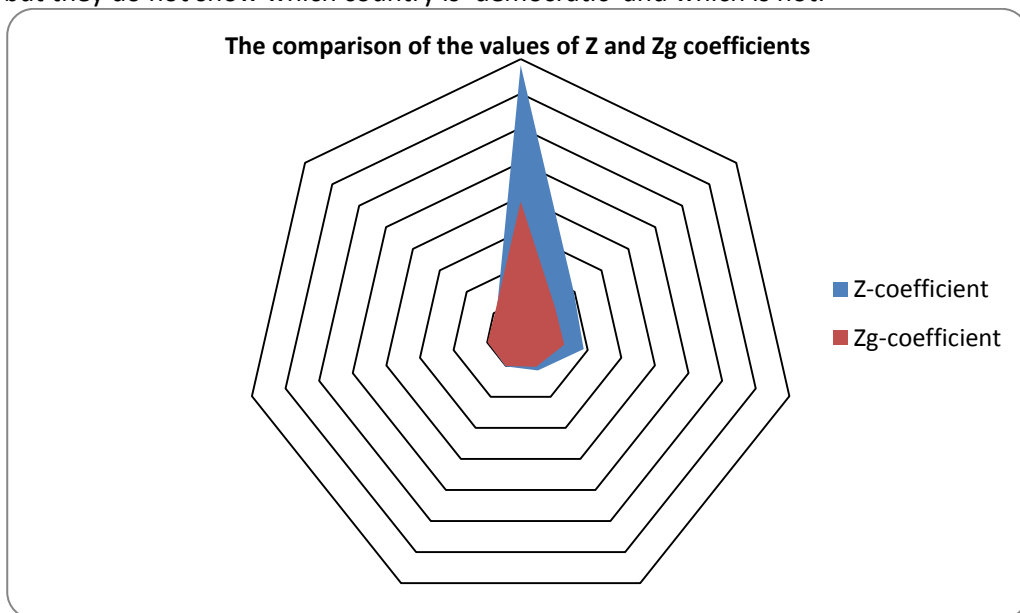




Source: author's elaboration

**Figure 3.** Ranking of the selected countries according to Z<sub>g</sub>-coefficient.

It would also be interesting to see the comparison of the values of two calculated coefficients. It is important to remember that what is valuable in this case is not an absolute value of the coefficient, but rather a comparative. The coefficients could show which country is 'more democratic' compared to other countries, but they do not show which country is 'democratic' and which is not.



Source: author's elaboration

**Figure 4.** The comparison of the values of Z and Z<sub>g</sub> coefficients.

In both cases, the example of Russia remains distinguished. It stands out in the background of the other states in case of Z-coefficient as well as in case of Z<sub>g</sub>-coefficient. The cases of Poland and Ukraine tend to show similar characteristics that might point out on the similarities in the social and economical processes in both countries. The three Baltic states demonstrate synchronism, having practically the same values of Z and Z<sub>g</sub> coefficients. This fact as in case of Poland and Ukraine shows the similarity in the internal life of the states. Another thing that is worth pointing out is that the value of both coefficients for Sweden is very close to the value for the Baltic states. However, the democracy in the Baltic states is younger in

post-soviet period than democracy in Sweden; the Baltic states demonstrate the highest level of democratic development among selected countries.

## CONCLUSIONS

1. The concept of democracy is not defined strictly and can be interpreted very widely, depending on a situation. The way in which big ranking agencies rank countries still remains debatable. As one of the possible ways of defining the level of democratic development, the calculations based on economic indicators can be used. However, Przeworski mentions three factors, and I found it rather difficult to estimate the level of the technical progress. On the other hand, the more technically developed a country is, the more expensive the workforce should be. This hypothesis could point a way for further research in this realm.
2. According to the Przeworski's idea, democratic countries need fewer workers in order to produce the additional value. For my research I used data showing the total number of all the workers in the country, however it is possible that the share of workers employed in high-tech areas is bigger in democratic countries, but in this case the question about the rich Asian non-democratic countries appears.
3. During my research I partly confirmed the verbal presumption about the level of democracy of the selected countries, especially Russia. Some interesting details about grouping of the countries have appeared during the experiment. As for the future development of the study I see the large-scale experiment that could include a large number of countries with the following comparison with rankings made by ranking agencies.

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#### APPENDIX. DESCRIPTIVE STATISTICS BY THE COUNTRIES

**Table 1**

Statistical data of the number of employees and GDP per capita in Ukraine

UKRAINE		
YEAR	Number of employees <sup>10</sup> (thousands)	GDP per capita in US doll. (PPP) <sup>11</sup>
2000	18 520,70	3406,50
2001	18 453,30	3484,41
2002	18 540,90	3812,14
2003	18 624,10	4300,75
2004	18 694,30	4639,72
2005	18 886,50	5219,25
2006	19 032,20	6057,44
2007	19 189,50	6468,38
2008	19 251,70	7202,34
2009	18 365,00	8025,90
2010	18 436,50	8417,00
2011	18 516,20	7257,90
2012	18 736,90	7685,57
2013	18 901,80	8281,87

**Table 2**

Statistical data of the number of employees and GDP per capita in Poland

POLAND		
YEAR	Number of employees <sup>12</sup> (thousands)	GDP per capita in US doll. (PPP) <sup>13</sup>
2000	14516,60	10607,90
2001	14194,80	10967,29
2002	13766,30	11592,28
2003	13606,10	12045,04
2004	13760,30	13049,52
2005	14057,00	13806,83
2006	14503,90	15143,61
2007	15155,90	16890,33
2008	15731,90	18046,15
2009	15789,40	19139,50
2010	15370,30	20883,06
2011	15457,30	22520,01
2012	15474,90	23598,56
2013	15463,80	24493,76

**Table 3**

Statistical data of the number of employees and GDP per capita in Lithuania

LITHUANIA		
YEAR	Number of employees <sup>14</sup> (thousands)	GDP per capita in US doll. (PPP) <sup>15</sup>
2000	1399,20	8695,48

<sup>10</sup> <http://www.ukrstat.gov.ua/>

<sup>11</sup> <http://www.worldbank.org/>

<sup>12</sup> <http://data.worldbank.org>

<sup>13</sup> <http://www.worldbank.org/>

<sup>14</sup> <http://www.worldbank.org/>

<sup>15</sup> <http://www.worldbank.org/>

<b>LITHUANIA</b>		
<b>YEAR</b>	<b>Number of employees<sup>14</sup> (thousands)</b>	<b>GDP per capita in US doll. (PPP)<sup>15</sup></b>
2001	1346,00	9664,32
2002	1394,70	10732,61
2003	1425,70	12315,63
2004	1410,10	13251,46
2005	1420,70	14681,89
2006	1416,30	16728,95
2007	1445,10	19277,17
2008	1426,10	20796,76
2009	1316,50	18277,92
2010	1246,80	20085,04
2011	1252,70	22541,73
2012	1274,90	24475,05
2013	1291,90	26511,22

**Table 4**

Statistical data of the number of employees and GDP per capita in Latvia.

<b>LATVIA</b>		
<b>YEAR</b>	<b>Number of employees<sup>16</sup> (thousands)</b>	<b>GDP per capita in US doll. (PPP)<sup>17</sup></b>
2000	923,70	8163,96
2001	938,70	9029,87
2002	952,40	10227,99
2003	958,30	11342,47
2004	960,60	12511,36
2005	969,20	14119,12
2006	1024,90	16604,80
2007	1064,10	19021,78
2008	1055,10	19874,63
2009	903,70	17032,94
2010	843,50	17409,91
2011	856,30	19451,03
2012	868,60	21122,30
2013	888,60	22559,08

<sup>16</sup> <http://www.worldbank.org/>

<sup>17</sup> <http://www.worldbank.org/>

**Table 5**

Statistical data of the number of employees and GDP per capita in Estonia.

<b>ESTONIA</b>		
<b>YEAR</b>	<b>Number of employees<sup>18</sup> (thousands)</b>	<b>GDP per capita in US doll. (PPP)<sup>19</sup></b>
2000	585,10	9706,93
2001	588,90	10548,51
2002	588,10	11805,47
2003	600,70	13237,36
2004	598,80	14664,40
2005	612,40	16560,50
2006	642,00	19299,08
2007	643,50	21836,41
2008	642,20	22508,93
2009	576,90	20206,18
2010	548,20	21113,12
2011	584,00	23954,87
2012	593,90	25921,03
2013	601,10	27169,29

**Table 6**

Statistical data of the number of employees and GDP per capita in Russia.

<b>RUSSIA</b>		
<b>YEAR</b>	<b>Number of employees<sup>20</sup> (thousands)</b>	<b>GDP per capita in US doll. (PPP)<sup>21</sup></b>
2000	64465,00	6825,41
2001	64664,00	7367,61
2002	66266,00	8029,12
2003	67152,00	9253,58
2004	67134,00	10231,43
2005	68603,00	11822,37
2006	69169,00	14916,19
2007	70770,00	16648,59
2008	71003,00	20163,61
2009	69410,00	19386,59
2010	69934,00	20497,95
2011	70857,00	24074,36
2012	71545,00	25316,64
2013	71391,00	24165,33

<sup>18</sup> <http://www.worldbank.org/>

<sup>19</sup> <http://www.worldbank.org/>

<sup>20</sup> <http://www.gks.ru>

<sup>21</sup> <http://www.worldbank.org/>

**Table 7**

Statistical data of the number of employees and GDP per capita in Sweden

<b>SWEDEN</b>		
<b>YEAR</b>	<b>Number of employees<sup>22</sup> (thousands)</b>	<b>GDP per capita in US doll. (PPP)<sup>23</sup></b>
<b>2000</b>	4300,9	29376,69
<b>2001</b>	4391,3	29818,59
<b>2002</b>	4393,3	30790,51
<b>2003</b>	4367,9	32064,76
<b>2004</b>	4337,3	34259,81
<b>2005</b>	4348,9	34332,33
<b>2006</b>	4422,8	37571,13
<b>2007</b>	4524,6	40560,89
<b>2008</b>	4565,2	41880,84
<b>2009</b>	4454,9	39657,24
<b>2010</b>	4497,8	41755,98
<b>2011</b>	4593,7	43709,21
<b>2012</b>	4626,9	44433,73
<b>2013</b>	4669,9	45067,44

**Table 8**

The value of the Gini coefficient for the selected countries

<b>COUNTRY</b>	<b>VALUE OF THE COEFFICIENT</b>
Lithuania	0,355
Latvia	0,352
Estonia	0,313
Russia	0,42
Poland	0,341
Ukraine	0,282
Sweden	0,23

<sup>22</sup> <http://www.gks.ru>

<sup>23</sup> <http://www.worldbank.org/>

## SUSTAINABLE ENERGY DEVELOPMENT AND ENERGY MARKET FAILURES

JUSTAS STREIMIKIS

MA Student at Vytautas Magnus University, Faculty of Economics and Management  
S. Daukanto St. 28, Kaunas, LT- 44246, Lithuania

**ABSTRACT.** Energy produced and used in ways that support human development over the long term, in all its social, economic, and environmental dimensions, is what is meant by the term *sustainable energy*. Sustainable energy development provides affordable, secure, lowest cost and clean energy. Energy market failures such as externalities, information asymmetry, inequality of income etc. do not allow to achieve environmental and social targets of sustainable energy development. Therefore policies and measures to overcome energy market failures are necessary: internalization of external costs of energy supply and support to low income population. The goal of the paper is to analyse sustainable energy targets and energy market failures hampering to achieve these targets. The policies and measures to overcome energy market failures helping to achieve sustainable energy development aims are underlined.

**KEYWORDS:** sustainable energy development, energy market failures.

### INTRODUCTION

The exact definition of sustainable development concept is still under discussions. There are more than 70 definitions of sustainable development that can be found in economic literature and which are mostly orientated to specific sectors such as nature, economics and civilization, and expressing quite different aspects of sustainable development concept. Nevertheless, the most appropriate definition conveying the idea of sustainable development is formulated in the communication of Brundtland commission; however, there are very similar newly developed concepts (Streimikiene, Siksnylyte, 2016). This definition states that sustainable development is development which satisfies demands of the current time and at the same time does not put future generations in danger to satisfy their needs. Traditionally sustainable development concept involves economic, ecological and social development issues or economic, environmental and social dimensions of sustainability (Hardi, Zdan, 1997).

Whereas the definition of sustainable development was widely criticised because of its uncertainty and openness to the various interpretations, this eventually allowed Pearce to call the concept of sustainable development and sustainability as well as their derivatives such as sustainable agriculture, sustainable energy, sustainable economic development, sustainable society etc. In practise sustainable development is assumed as capability to decouple economic development from resource utilisation and environmental pollution, in other words than consumption of natural resources increases more slowly than economic growth and environmental pollution is growing more slowly than consumption of natural resources. Such type of development can be treated as sustainable development (Streimikiene, Siksnylyte, 2014).

Energy production and consumption is closely related to all global economic, social and environmental development issues. In order to sustain and in turn to ensure sustainable society development the energy sector development should be sustainable by itself. Therefore the main goal of sustainable energy development is to ensure production and use of energy resources in ways that promote—or at least are compatible with—long-term human well-being and ecological balance (Meadows, 1998; Kirpatrick, 2000).

The most important are social and environmental dimensions of energy sector development. They are directly related to the phenomena of energy market failure whereas economic issues of energy sector development can be tackled in the most efficient way by liberalized energy markets, which guarantee economic efficiency of energy system functioning. Therefore in order to ensure sustainable energy development it is necessary to undertake state intervention into energy markets measures able to overcome energy market failures associated with externalities and income inequality.

The main problem is to define the main energy market failures hampering sustainable energy development and propose policies and measures to overcome energy market failures. The aim of the paper is to analyse sustainable energy targets and energy market failures hampering to achieve these targets. The main objectives to achieve this aim are listed below:

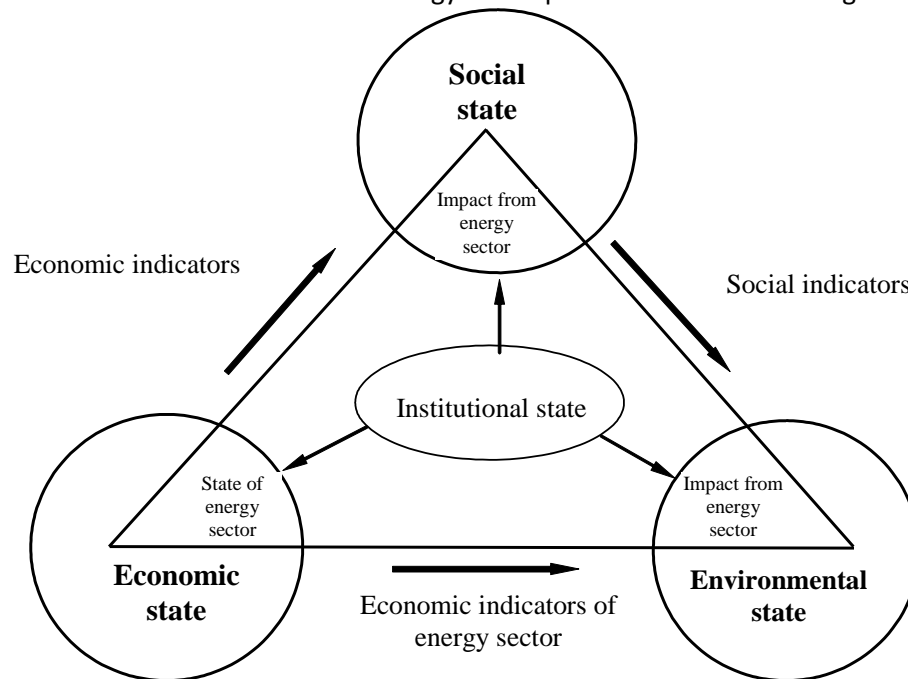
1. To analyse sustainable energy development targets

2. To identify energy market failures hampering sustainable energy development
3. To propose policies and measures able to overcome energy market failures.

The main methods applied in the paper: analysis and synthesis, generalization and abstraction.

## 1. SUSTAINABLE ENERGY DEVELOPMENT

Energy sustainability is based on three core economic, social and environmental dimensions: energy security, energy equity, and environmental sustainability. The state of environment mostly depends upon the energy sector which is directly influenced by the economic and social factors. Social state is affected by the economic indicators of energy sector. Institutional state by various political factors has impact on all sustainable energy development dimensions (Brown, Sovacool, 2007). Interrelations of social, economic and environmental dimensions of sustainable energy development are exhibited in Figure 1.



**Figure 1.** Interrelations between sustainability dimensions of the energy sector

The concepts “sustainable development” and “sustainability” as well as their derivatives such as “sustainable agriculture”, “sustainable energy”, “and sustainable economic development” are called the most modern words of the ninth century (Pope, 2004). As it was mentioned above sustainable energy is energy produced and used in ways that support human development over the long term, in all its social, economic, and environmental dimensions or production and use of energy resources in ways that promote long-term human well-being and ecological balance.

Although there seem to be no physical limits to the world’s energy supply for at least the next 50 years, today’s energy system is unsustainable because of equity issues as well as environmental, economic, and geopolitical concerns that have implications far into the future. Aspects of the unsustainability include (Meyear-Naimi; Vaez-Zadeh, 2012):

- Modern fuels and electricity are not universally accessible, an inequity that has moral, political, and practical dimensions in a world that is becoming increasingly interconnected;
- The current energy system is not sufficiently reliable or affordable to support widespread economic growth. The productivity of one-third of the world’s population is compromised by lack of access to commercial energy and another third suffer economic hardship and insecurity due to unreliable energy supplies;
- Negative local, regional, and global environmental impacts of energy production and use threaten the health and well-being of current and future generations.

Finding ways to expand energy services while addressing the environmental impacts associated with energy use represents a critical challenge to humanity.



Given proper frameworks, pricing signals, and regulatory regimes, markets can efficiently deliver on the economic objectives of sustainable development but markets alone cannot be expected to meet the needs of the most vulnerable groups and to protect the environment.

The use of energy in all its forms and applications provides an enormous benefit to society, however, it is also associated with numerous environmental and social challenges, such as e. g. the health effects of air pollution. These burdens are referred to as external costs, as they have typically not been included in the market price of energy. The purpose of externalities research is to quantify damages in order to allow rational decisions to be made that weigh the benefits of actions to reduce externalities against the costs of doing so. Ultimately, this market failure could be reduced by internalisation of the external costs during energy planning.

The World Energy Council's definition of energy sustainability is based on three core dimensions – energy security, energy equity, and environmental sustainability. Taken together, they constitute a 'trilemma', and achieving high performance on all three entails complex interwoven links between public and private actors, governments and regulators, economic and social factors, national resources, environmental concerns, and individual behaviours (WEC, 2016).

The Energy Trilemma Index ranks countries' energy performance around the world and provides a framework to benchmark progress. The 2016 Energy Trilemma Index reveals signs of progress on all dimensions of the energy trilemma.

Energy security encompasses effective management of primary energy supply from domestic and external sources, reliability of energy infrastructure, and ability of energy providers to meet current and future energy demand.

Energy equity encompasses accessibility and affordability of energy supply across the population.

Environmental sustainability encompasses achievement of supply and demand side energy efficiencies and development of energy supply from renewable and other low carbon sources.

The Energy Trilemma Index quantifies the energy trilemma and comparatively ranks 125 countries in terms of their ability to provide a secure, affordable, and environmentally sustainable energy system. In addition, countries are awarded a balance score that highlights how well the country manages the trade-offs between the three energy trilemma dimensions and identifies top performing countries with a triple-A score. The Index rankings are based on a range of data sets that capture both energy performance and the context of that energy performance. Energy performance indicators consider supply and demand, the affordability of and access to energy, and the environmental impact of a country's energy production and use. The contextual indicators consider the broader circumstances of energy performance including a country's ability to provide coherent, predictable and stable policy and regulatory frameworks, initiate research, development and demonstration (RD&D) and innovation, and attract investment.

Thirteen of the 125 countries assessed achieve a triple-A score (WEC, 2016). Efforts to increase resource productivity and manage energy demand growth will be key in ensuring a balanced energy trilemma. Among the countries included in the Index, access to electricity and clean cooking have both increased by 5% to 85% and 74%, respectively since 2000. Meanwhile, cleaner forms of energy are being used to support energy access and economic growth, with renewables making up 9.7% of total primary energy consumption in 2015. A more diversified and low-carbon energy mix will help to improve energy security and environmental sustainability but its positive effects may be stifled by rising energy consumption, which is predicted to increase by up to 46% by 2060. This year Denmark, Switzerland and Sweden top the Index, with Denmark also achieving the highest score for energy security. While not in the top 10 overall, Luxembourg maintains its position for most equitable (affordable and accessible) and the Philippines is leading the way on the environmental sustainability dimension. In Latin America, Uruguay ranks the highest, while in the Middle East, Israel outperforms its regional peers. In Sub-Saharan Africa, Mauritius performs best, and in Asia, New Zealand remains at the top of the regional leader board (WEC, 2016). Lithuania has 28<sup>th</sup> position (BAB) score therefore the country is ranked at B for energy equity.

## 2. ENERGY MARKET FAILURES

Although markets play a prominent role in securing energy supply in developed countries, their role is modest in some developing countries and absent in others. Where markets do not flourish, the security of supply and services depends solely on government action and multinational companies. Which may not

serve the best interests of consumers. In such situations energy security can be enhanced by encouraging the development of frameworks that allow markets to contribute to the allocation of energy resources.

Energy markets in many countries are rapidly becoming more competitive. For that reason successful sustainable energy policies whether involving financing, incentives, taxes must engage the private sector and catalyze private investment on a large scale but for some reasons many of the transitional economies that need most investments have problems attracting private investments and gaining access to financial markets.

Renewable resources are more evenly distributed than fossil and nuclear resources, and energy flows from renewable resources are more than three orders of magnitude higher than current global energy issues. But the economic potential of renewables is affected by many constraints – including competing land uses, the amount and timing of solar irradiation, environmental concerns, and wind patterns. In order to accelerate renewable energy developments towards maturity and competitiveness (increasing returns to scale) renewables need support. So rapid expansion of renewable-based energy systems will require actions to stimulate the market in this dimension. This expansion can be achieved by finding ways to drive down relative cost of renewables in their early stages of development commercialization, while still taking advantages of the economic efficiencies of the marketplace (Brown, 2001).

Another important market failure is in the field of energy end-use efficiency and energy saving measures. Even in the absence of energy subsidies for conventional energy forms market barriers – such as lack of technological knowledge, different interests of investors and users, and high transaction costs of individual investors – keep energy efficiency measures from reaching their cost-effective potential (Hirst, Brown, 1990).

Markets alone may provide insufficient incentives for long-term research and development. New technologies of energy innovations face barriers all along the energy innovation chain (from research and development, to demonstration projects, to cost buy-down, to widespread diffusion). Some of these barriers reflect market imperfections, some inadequacies in the public sector, and some different views about needs, corporate priorities, relevant time horizons and reasonable costs.

The main market failures in addressing sustainable energy development issues are that (Brown, 2001):

- markets do not account for environmental and social objectives,
- they do not provide incentives for long-term R&D (research and development) in energy efficiency and saving measures, renewable energy as well as energy innovations and new technologies;
- markets alone cannot be expected to meet the energy needs of the most vulnerable groups of population.

Where markets fail to protect these and other important public benefits targeted government policies and consistent regulatory approaches are needed. The problem is that government interventions are usually less efficient than market approaches. The policy measures and mechanisms that simulate market behaviour are preferable because economic tools of regulation are more efficient comparing with the administered systems.

Therefore, the current path of energy development and the rate of change is not compatible with key elements of sustainable development. If governments, corporations, and international institutions do not introduce appropriate policies and measures now, it will then become even more difficult to change course.

The most critical issues that sustainable energy strategies and policies derived from them need to address are how to widen access to reliable and affordable modern energy supplies, and how to ease the negative health and environmental impacts of energy use.

Options to overcome these barriers include voluntary or mandatory standards (effectively applied) for appliances, vehicles, and buildings, labelling schemes to better inform customers, procurement policies to achieve higher standards and economic of scales, technical training in new energy efficiency technologies and their maintenance, and credit mechanisms to help consumers meet higher first costs (Bayindir-Upmann, Raith, 2003).

Governments have to set goals that define performance characteristics of qualifying sustainable energy technologies (for example, by specifying air pollution emission limits or minimum standards on

plants, machinery, and vehicles). These goals for suppliers can be completed by mechanisms that favour sustainable energy technologies in energy market choices. Other regulatory approaches supportive of sustainable energy include mandating that a certain percentage of energy comes from renewable sources, requiring that energy grids be open to independent power producers, ensuring that rural population are served (DeCanio, 1998).

Reliable commercial legislation and jurisdiction and incentives are needed to encourage private companies to invest in sustainable energy – or to defray the risks associated with such investments. Political stability, application of the rule of law, avoidance of arbitrary intervention and existence of institutions that facilitates savings and investments are generally important for promoting investment. Supportive financial and credit arrangements will be needed to introduce commercial energy to people excluded from markets especially in rural areas.

Direct government support is needed for radically new technologies than for incremental advances, where the private sector usually functions relatively effectively. Options to support technological innovation, while still using competition to keep down costs include tax incentives, collaborative research and development ventures, government or cooperative procurement policies, green labelling schemes, and market transformation initiatives (Leipprand, 2007).

Developing and transitional economies need to further develop their resources – human, natural, and technological and they need assistance with technological transfer, financing, and capacity building. International industrial collaboration offers means by which the private sector could gain markets while fostering the migration of new technologies to developing countries. Public agencies, private research institutes, and regional institutes that provide training in technological management are additional possibilities for furthering technology sharing and capacity building.

The ongoing process of globalization means that ideas, finances, and energy flow from one country to another. Productive ways might include combining national efforts, for example, in the procurement of renewable energy technologies. Other options include international harmonization of environmental taxes and emissions trading (particularly among industrialized countries), as well as energy efficiency standards for mass-produced products and imports of used machinery and vehicles. The need for concerted action on energy is clear from the UN Framework Convention on Climate Change.

The challenge of sustainable energy includes crucial enabling roles for governments, international organizations, multilateral financial institutions, and civil society, including non-governmental organizations and individual consumers. Partnership will be required, based on more integrated, cooperative approaches and drawing on a range of practical experience.

A very important issue is monitoring of sustainable energy development and selection of the best harmonized energy and environmental policies and measures seeking to ensure sustainable energy development.

### **3. POLICIES AND MEASURES TO OVERCOME ENERGY MARKET FAILURES**

The main policies and measures to overcome energy market failures can be grouped as: public-private RD&D partnerships; voluntary, information and technical assistance programs; regulatory policies; and financing, investment enabling, and fiscal policies (Bovenberg, Goulder, 1996).

The existence of market failures that hamper socially optimal levels of investment in energy efficiency is the primary reason for considering public policy interventions. Low cost policies can be implemented that either eliminate or compensate for market imperfections and barriers, enabling markets to operate more efficiently to the benefit of society. In some cases, policies may not be feasible; they may not fully eliminate the market failures or they may do so at costs that exceed the benefits.

Seeking to increase energy efficiency, reducing transaction costs is particularly important. For clean, low carbon energy supply technologies internalization of externalities is especially critical. Environmental taxes, energy taxes, emission trading schemes can be applied to internalize negative externalities. Subsidies for renewables, low carbon energy sources and energy efficiency measures can be implemented to address positive externalities of low carbon or carbon-free and clean energy sources (Barker, Kohler, 1998).

The market imperfections and barriers that prevent efficient and clean energy technologies should be linked to specific public policies and programs. Some of these linkages are illustrated below. Information programs can be viewed as measures to reduce transaction costs associated with energy decision making.

Examples include the costs of gathering and processing information, making decisions, and designing and enforcing contracts relating to the purchase and installation of energy-using technology. A key question is whether there are institutional interventions that can reduce these costs for individual consumers. For example, the time and effort required to find a refrigerator with the maximum cost-effective level of energy efficiency could be significant. Information programs (e.g., product ratings and labeling) and technical assistance (e.g., industrial energy assessments) can help make up for incomplete information by reducing the consumer's cost of acquiring and using needed information. They will simplify decision making and can help consumers focus on energy efficiency. The public goods nature of R&D can be addressed through direct government funding.

## CONCLUSIONS

1. Energy produced and used in ways that support human development over the long term, in all its social, economic, and environmental dimensions is sustainable energy.
2. The World Energy Council's definition of energy sustainability is based on three core dimensions – energy security, energy equity, and environmental sustainability and taken together, they constitute a 'trilemma', and achieving high performance on all three entails complex interwoven links between public and private actors, governments and regulators, economic and social factors, national resources, environmental concerns, and individual behaviours.
3. The 2016 Energy Trilemma Index reveals signs of progress on all dimensions of the energy trilemma for 15 countries. Lithuania has 28<sup>th</sup> position (BAB) score therefore country is ranked at B for energy equity in 2016.
4. Energy market failures such as externalities, information asymmetry, inequality of income etc. do not allow to achieve environmental and social targets of sustainable energy development.
5. Policies and measures targeting energy market failures can provide for achievement of sustainable energy development goals.
6. The main policies and measures to overcome energy market failures can be grouped as: public–private RD&D partnerships; voluntary, information and technical assistance programs; regulatory policies; and financing, investment enabling, and fiscal policies.

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## CONSUMPTION OF LUXURY GOODS IN HONG KONG AND MAINLAND CHINA: CASE STUDY OF GENERATION Z

AUDRIUS JUODZBALIS

*PhD Student, Shanghai International Studies University (SISU), Intercultural Institute  
550 W. Dalian Road, SISU post box 359, Research Building 5, Rooms 603-604 Shanghai, 200083, P.R. China*

**ABSTRACT.** Not only in the Western world but also in Asia a growing number of luxury goods consumers creates a need to monitor, analyze and assess the luxury goods consumer market to be able to generate corresponding marketing strategies to individual luxury brands, individual types of luxury goods, consumer segments of specific luxury goods by a particular epoch. This is especially true about several Chinese cities and Hong Kong which make the top ten cities of the world with the most money spent on luxury goods. This situation obliges luxury goods vendors to keep track of consumer behavior trends in regarding luxury goods. The newest and at the same time the youngest generation of consumers Generation Z is not an exception. Although not yet fully recognized, it is already making a powerful influence on the luxury goods market trends. So, the purpose of this article is to analyze Generation Z consumers' need to purchase luxury goods and to identify the key features of their consumer behavior in mainland China and Hong Kong.

**KEY WORDS:** luxury goods, Generation Z, consumer behavior, customer trends in Asia.

### INTRODUCTION

Although the luxury phenomenon was already widely known in Ancient Greece and today's luxury brands with a powerful image had already stood their leading positions in the market in the end of the 19<sup>th</sup> century, marketing specialists who work in luxury field, cannot follow the constant, time-tested marketing strategy, which can maintain the same powerful luxury brand for several decades.

The growth of luxury goods market is not just the feature of Western Europe and the US market. This paper analyzes Mainland China (Beijing city) and Hong Kong which make the top ten cities of the world with the most money spent on luxury goods. In 2014 the global goods market amounted to 6.9 bln. EUR. China's and Hong Kong's luxury goods market amounted to 24.13 percent of all the global luxury goods market. Particular attention must be paid to the youngest Generation Z consumer behavior trends on luxury goods. According to statistics of these consumers, i.e. 15–24 years old digital age consumers in 2012, there were 363 million of them in the world.

Grown up together with the latest technologies, capable of efficiently searching, managing and organizing information, Generation Z consumers are already aware from a young age of what and where they can choose, where they can check the obtained information, what are the most important criteria for a high-quality item and whether they are met by offering consumers a wide range of goods (Targamadze, 2014). This generation of consumers' view of luxury goods is also not an exception, they are chosen differently by Generation Z than the previous generation (Gosselin, 2015). These Generation Z features oblige luxury goods manufacturers to keep track of this new emerging generation behavior in the market in order to have the opportunity to meet the customers' requirements and expectations, while at the same time maintain its strong image in the constantly changing and increasing global luxury goods market.

Despite a number of studies on consumer behavior on luxury goods in both Mainland China and Hong Kong, no scientific work was found allowing to evaluate the Generation Z consumer attitudes towards luxury goods consumption; especially comparing both countries in this regard. The youngest generation on which it was possible to find information in this regard is Generation X in Hong Kong (Leung & Taylor, 2002) and Generation Y in China (Sun, 2011; Ngai Cho, 2012). Thus, the identified problem provides an opportunity to formulate the question of a scientific problem: what is the behavior of Generation Z consumer in luxury goods market in Mainland China and Hong Kong?

**Object of the Paper:** Generation Z consumer behavior in the luxury goods market in Mainland China and Hong Kong.

**Aim of the Paper:** to create a theoretical model of Generation Z consumer behavior on luxury goods and compare China's and Hong Kong's Generation Z consumers' behavior in luxury goods market.

**Objectives** in order to reach the aim:

1. To reveal the concept of luxury;

2. To describe Generation Z consumer behavior in general and in a luxury goods market;
3. To create a theoretical model of Generation Z consumer behavior on luxury goods;
4. To identify the differences between Generation Z consumer behavior in Mainland China and Hong Kong.

**Research methods:** scientific literature sources, statistical and websites analysis.

## 1. CONCEPT OF LUXURY

Although in the scientific literature the luxury phenomenon is analyzed quite widely (Liu et al., 2012; Cheah et al., 2015; Bain Co., 2014; Radon, 2012; Hung et al., 2011; Choo et al., 2012; Jung et al., 2014; Brun, Castelli, 2013) due to its relativity and subjectivity, scientists do not agree on an unambiguous (Christodoulides et al., 2009; Atwal, Williams, 2009; Wiedman et al., 2009; Choi, 2003) definition of the luxury concept. The most universal definition of the luxury concept used by many scientists (Phau, Prendergast, 2001; Heine, 2011; Lee, Hwang, 2011) is as follows: luxury is all that is desirable and more than necessary or normal. Luxury concept formulation and interpretation is determined by five main relative conditions – social, regional, present, economic and cultural relativity (Heine, 2011).

### 1.1 DEFINITION OF LUXURY GOODS

The luxury phenomenon is closely related to luxury goods and brands. K. Heine (2011) draws attention to the fact that luxury goods and luxury brands concepts should not be mixed. According to this author, luxury goods can be marked with luxury and non-luxury brands.

Different authors interpret the luxury brand concept in their own way. For some it is exclusive brands with specific features (Vigneron, Johnson, 2004; Hung et al., 2011); for others, it is a subjective unspecified concept formed in the consumer's mind and defined by unique characteristics (Heine, 2011); for even others, it is a set of certain symbolic meanings and it represents a higher social group (Hennings et al., 2012).

The main characteristics describing a luxury product are the following: high quality (Nueno, Quelch, 1998; Phau, Prendergast, 2000; Mandhachitara, Lockshin, 2004; Kapferer, 2001; Heine, 2011; Wetlaufer, 2001; Hung et al., 2011) and price (Nueno, Quelch, 1998; Mandhachitara, Lockshin, 2004; Kapferer, 2001; Heine, 2011; Okonkwo, 2009; Hung et al., 2011; Phau, Prendergast, 2000; Radon 2012; Ng, 1987; Wetlaufer, 2001), exclusivity (Phau, Prendergast, 2000; Kapferer, 2001; Hung et al., 2011), identity (Nueno, Quelch, 1998; Hung et al., 2011), outstanding functionality (Phau, Prendergast, 2000; Mandhachitara, Lockshin 2004), uniqueness (Nueno, Quelch, 1998; Kapferer, 2001), aesthetic appearance (Kapferer, 2001; Heine, 2011), durability (Mandhachitara, Lockshin, 2004; Wetlaufer, 2001), novelty (Mandhachitara, Lockshin, 2004; Heine, 2011), craftsmanship (Radon 2012; Quelch, 1987; Phau, Prendergast, 2000). The main functions performed to the luxury goods consumer: reflection of personal goals (Wilcox et al., 2009), fulfillment of social objectives (Wilcox et al., Jenkins, 2004), self-expression satisfaction (Wilcox et al., 2009), self-identification (Wilcox and et al., 2009), self-identification (Wilcox et al., 2009; Phau, Prendergast, 2001; Jenkins, 2004), expression of their individuality (Wilcox et al., 2009), their social status demonstration (Wilcox et al., 2009), their social status consolidation (Park et al., 2008; Phau, Prendergast, 2001; Jenkins, 2004), financial satisfaction (Wiedman et al., 2009), individual satisfaction (Phau, Prendergast, 2001; Wiedman, et al., 2009).

There is no universally accepted classification of luxury goods. Some authors distinguish less of these types (Reddy, Terrblanche, 2005; Silverstein, Fiske, 2005; D'Arpizio et al., 2007), others distinguish more (Brun, Castelli, 2013; Heine, 2011). For example, Reddy and Terrblanche (2005) name only two types of luxury goods, K. Heine (2011) names four, Brun and Castelli (2013) name eight groups with their specified subgroups. A different number of luxury goods types named by various authors depends on the criteria used to divide luxury goods into types. They can be grouped according to hierarchy (Silverstein, Fiske, 2003), consumer's benefits (Reddy, Terblanche, 2005), accessibility (D'Arpizio, 2007), luxury goods groups (Brun, Castelli, 2013) and different types of luxury goods (D'Arpizio et al., 2015; Heine, 2011), etc.

### 1.2 OVERVIEW OF LUXURY GOODS MARKET

In the period of 2009–2014 luxury goods market was constantly increasing. In 2014 it amounted to 223 bln. EUR, i.e. 31.4 percent more than in 2009. Among the different regions of the world the largest personal luxury goods market share was taken by Europe (34 percent) and America (32 percent). Most of

the companies offering luxury goods consist of companies selling a single brand's (29 percent) and several luxury brands' produce (27 percent) (D'Arpizio et al., 2015).

In 2013, the leading company by the earned annual income in the world market of luxury goods was a French company 'LVMH Moët Hennessy Louis Vuitton SA', selling several luxury brand goods, such as Louis Vuitton, Fendi, Bulgari, Loro Piana, Emilio Pucci, Acqua di Parma, Donna Karan, Loewe, Marc Jacobs, TAG Heuer, Benefit Cosmetics (Deloitte Tohmatsu Limited, 2015). Among the ten leading luxury goods trading companies in the world 60 percent consist of companies originated in Western Europe and 30 percent – in the USA. Attention is drawn to the fact that between the two-great world's leading regions (Western Europe and the USA) a company from Hong Kong also makes the top ten taking fourth place (Deloitte Tohmatsu Limited, 2015). In the period of 2011–2013 the fastest growing international trading companies in luxury goods top twenty is represented by 8 countries: China/Hong Kong, USA, India, Italy, France, Switzerland, the United Kingdom and Denmark (Deloitte Tohmatsu Limited, 2015).

In 2014, compared to 2013, the world's largest growth was in the automobile (10 percent), luxurious hospitality services (9 percent) and private aircraft (9 percent) markets; the least growth was in personal luxury goods (2 percent), luxury food (2 percent) and yacht (2 percent) markets, and designer furniture market even decreased by 1 percent (D'Arpizio et al., 2015). Among the top 100 luxury goods trading companies there are mainly those that sell luxurious clothing and footwear (36 percent), and jewellery and watches (31 percent) (Deloitte Tohmatsu Limited, 2015).

### **1.3. FACTORS INFLUENCING THE NEED OF THE LUXURY GOODS CONSUMERS TO PURCHASE LUXURY GOODS**

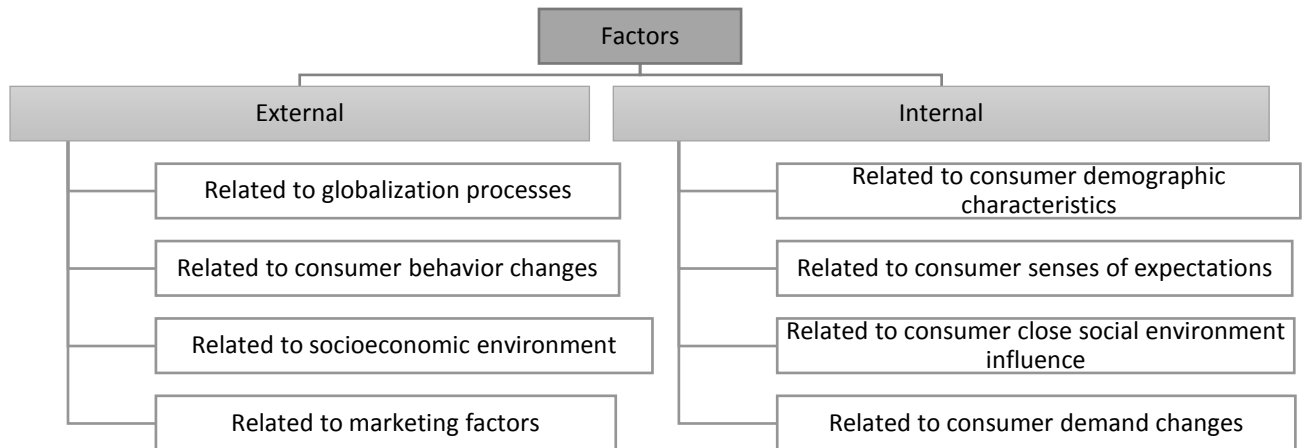
Review of a large number of scientific works (Brun, Castelli, 2013; Kim, Ko, 2012; Chadha, Husband, 2006; Michman, Mazze, 2006; Chevalier Mazzalovo, 2008) analyzing consumer behavior peculiarities in the luxury goods market showed that there is no single universal luxury goods consumer segmentation, reflecting their characteristic behavior in the luxury goods market. The main criteria on which scientists distribute luxury goods consumers into segments are the tendency to hedonism, the approach to price and quality (Brun, Castelli, 2003; Lee, Hwang, 2011; Wiedman et al., 2009). Many scientists (Chadha, Husband, 2006; Michman, Mazze, 2006; Chevalier Mazzalovo, 2008) name such consumer segments of luxury goods as luxury gourmet consumers, regular luxury consumers and luxury consumers out of habit.

Motives of purchasing luxury goods is a relevant scientific discussion subject that studies consumers' purchasing decision affecting cultural, economic, psychological, social and other factors (Li et al., 2012; Cheah et al., 2015; Truong et al., 2010; Sierra Hyman, 2011; Jalalkamali, Nikbin, 2010).

Intense scientific interest in processes motivating consumers to buy luxury goods is illustrated by not only this process individual motive analysis in various types of scientific work, but by also created and empirical research-based models (Subhadib, Ranchhod, 2015; Hung et al., 2011; Cheah et al., 2015; Li et al., 2013; Hennings et al., 2015). Different authors interpret the process of consumer deciding to purchase a luxury product in their own way. Moreover, after carrying out empirical research they confirm their own created hypothetical model. This concludes that there is no single correct model to accurately describe the relationships between individual factors and their impact on consumer's decision.

Different authors name individual factors (Li et al., 2013; Miller, Mills, 2012; Hennings et al., 2012; Pappu et al., 2007) or their groups (Tynan et al., 2010; Brun; Castelli, 2013; Seo, Buchmann-Oliver, 2015) motivating consumers to purchase luxury goods. Other authors combine the main factor groups motivating consumers to buy luxury goods into a single factor and call it value of the product (Cheah et al., 2015; Li et al., 2013; Hennings et al., 2015; Jung et al. 2012; Wiedman et al., 2009). Reviewing scientific works that analyzed and researched the individual factors motivating consumers to buy one type or the other type of luxury goods, shows that such factors are numerous. All of these factors can be divided into two main groups: external and internal (see Fig. 1).





Source: created by the author.

**Figure 1.** Factors motivating consumers to buy luxury goods

To sum up this subsection, it can be concluded that there are no unambiguous definitions of luxury and luxury goods concepts in the scientific literature. Luxury is a subjective, relative concept interpretation of which depends on many factors. The typical luxury definition defines it as all that is desirable and more than necessary or normal. The main characteristics of luxury goods are their high quality and price, exclusivity, recognition, exceptional functionality, uniqueness, aesthetics, durability, novelty, craftsmanship. A luxury product purchased by a consumer is significant for him in several aspects: it allows him to identify himself, consolidates his social status and allows him to fulfill his social objectives and experience individual satisfaction.

Scientific literature does not list specific motives, encouraging consumers to purchase luxury goods. Most authors agree that the main groups of factors motivating consumers to buy luxury goods that generate the product value basis are their functional and symbolic value, as well as financial and social value. To sum up ideas of many authors in respect of individual factors motivating consumers to buy luxury goods, it was decided to divide them all into two main groups: external (related to globalization, changes in consumer behavior, improving socioeconomic environment, marketing actions) and internal factors (related to consumer demographic characteristics, changes in their expectations and needs, the impact of social environment familiar to them).

## 2. CONCEPT OF GENERATION Z

Scientists give Generation Z various names: the digital generation, virtual environment children, natives of the digital generation and so on (Targamadze, 2014; Bie et al., 2015). In the scientific literature, the exact date of Generation Z discovery is questionable (Peterson 2014; Kriščiukaitytė, 2008). Some authors assign to this generation people born in 1994 and later (Williams et al., 2015), others – those born after 1990 (Peterson, 2014), and even others – people born in 1995 and later (Targamadze et al., 2015; McCrindle, Wolfinger, 2010).

About 363 million Generation Z representatives lived in the world, i.e. 15–24 years old individuals, who can easily control smart technologies in 2012 (Bie et al., 2015). Most of these Generation Z representatives live in North America, Canada, Europe, Australia, South Korea. It is scientifically presumed that in 2017 Generation Z individuals will double in the world (Bie et al., 2015).

Scientists interested in Generation Z agree that individuals who belong to it usually have certain unique qualities that distinguish them from other generation representatives. Generation Z representatives differ from those born in the previous generations in many criteria: date of birth, major factors of generation formation, dominant personal features and values, point of view, engagement/participation level, quantity of knowledge/information, activeness level, qualifications, view of work, consumption behavior (Targamadze, 2015; Stanišauskienė, 2015).

The main factors that formed values and the essential provisions of Generation Z consumer are globalization, information technology development, mobile communications, the Internet, other virtual environments (Soldatova et al., 2013). Summarizing thoughts expressed by many authors (Targamadze et al., 2015; Peterson, 2014; Palfrey, Gasser, 2011; Sandomirskij, 2015; Williams et al., 2015; Wikia, 2013) it

was decided from the main Generation Z characteristic aspect that all of them can be divided into 7 main groups: political values, social activity, personal values, personal attitudes, behavioral features, personal characteristics, psychological characteristics (see Table 1.).

**Table 1**

Main characteristics of Generation Z consumers

Group of characteristics	Characteristics	
<i>Political values</i>	<ul style="list-style-type: none"> <li>• Breaks conservative traditions</li> <li>• Patriotism</li> </ul>	<ul style="list-style-type: none"> <li>• Political activity</li> </ul>
<i>Social activity</i>	<ul style="list-style-type: none"> <li>• Participating in several activities at the same time</li> <li>• Constant use of internet</li> </ul>	<ul style="list-style-type: none"> <li>• Constant use of smart technologies</li> <li>• Attending social networks</li> </ul>
<i>Personal values</i>	<ul style="list-style-type: none"> <li>• Treasures family</li> <li>• Liberality</li> </ul>	
<i>Personal attitudes</i>	<ul style="list-style-type: none"> <li>• Objectivity</li> <li>• Realism</li> </ul>	<ul style="list-style-type: none"> <li>• Aim to be self-sufficient and independent</li> </ul>
<i>Behavioral features</i>	<ul style="list-style-type: none"> <li>• Level of conflict</li> <li>• Competitiveness</li> <li>• Impulsiveness</li> <li>• Violation of social standards</li> </ul>	<ul style="list-style-type: none"> <li>• Carelessness</li> <li>• Unconcern of the future</li> <li>• Reduced self-regulation mechanisms</li> <li>• Lack of attention to others</li> </ul>
<i>Psychological characteristics</i>	<ul style="list-style-type: none"> <li>• Self-confidence</li> <li>• Hyperactivity</li> <li>• Instability</li> </ul>	<ul style="list-style-type: none"> <li>• Tendency to autism</li> <li>• Tendency to infantilism</li> </ul>
<i>Personal characteristics</i>	<ul style="list-style-type: none"> <li>• Innovativeness</li> <li>• Creativity</li> </ul>	<ul style="list-style-type: none"> <li>• Sensitivity</li> <li>• Lack of critical thinking</li> </ul>

Source: created by the author

## 2.1 GENERATION Z CONSUMER BEHAVIOR

Marketers increasingly take interest in the Generation Z consumers (Williams et al., 2015). Teenager and especially young adult market is fundamental for companies to survive in the future. It is therefore important to understand motivation of today's purchase behavior of this generation's consumer in order to effectively form their future loyalty to one or another brand (Alvand et al., 2011).

Generation Z consumers are focused on consumption (Targamadze et al., 2014; Kriščiukaitytė, 2008). They are insightful, thinking a lot about what they wear, eat and use (Williams et al., 2015). This generation usually buys technical equipment, computer games, fashion and beauty products, meals, drinks, etc. (Targamadze et al., 2014; Shukla, Srivastava, 2013). They also often like to spend money in food service establishments and in fashion and clothing shops (Yip Chan, 2012; Peterson, 2014). Generation Z spends more on food and drinks than any other previous generation (Peterson, 2014).

Generation Z representatives do not tend to save (Aktur et al., 2011; Shukla, Srivastava, 2013) and like to treat themselves (Santisi et al., 2014). In their view, brand value is created by such main characteristics as functionality, uniqueness, quality, advantage and so on (Santisi et al., 2014).

Most of today's Generation Z consumers believe that their purchases, specific brands form their image in society and the closest peer group environment. Choosing certain products allows this generation of consumers to form their social status (Shukla, Srivastava, 2013).

When choosing products, this generation is influenced by new media channels, friends and technological solutions (Williams et al., 2015). To purchase one type or the other type of products they are also motivated by independence, individuality, status, influence of friends (Aktur et al., 2011). Friends, as one of the main factors influencing Generation Z the need to buy, are mentioned by several authors (Aktur et al., 2011; Williams et al., 2015).

For Generation Z consumers advertising is the main source of information about products available in the market (Shukla, Srivastava, 2013). Product advertising on television usually creates the need to purchase the product for Generation Z consumers (Verma, Kishare, 2013). Text and color are the key aspects of advertising drawing Generation Z consumers' attention to the advertisement (Verma, Kishare, 2013). Williams et al. (2015) in their research findings pointed out what should be noticed in the

advertisement intended for Generation Z: it should have original context; the product manufacturer should answer any short consumer's query within 24 hours, otherwise the Generation Z consumer will never return to this page and never trust the brand proposed there; in the virtual advertisement it is recommended to arrange quick win competitions, regularly update the content of the advertisement and games, communicate with consumers if they have submitted their contacts. The most preferred form of receiving information about products available on the market for the current generation of consumers is via e-mail and social networks (Walgrave, 2015). The visual brand effect is more significant for Generation Z than the information itself (Palfrey, Gasser, 2011). They usually pay for products in cash and with debit cards (Spenny, 2014).

## **2.2 GENERATION Z CONSUMER BEHAVIOR IN THE LUXURY GOODS MARKET**

Generation Z consumers as well as any other consumers differ in their behavior when choosing luxury goods. Generation Z luxury goods consumer segments can be distinguished as Connoisseur, Emotion seekers, Approval seekers and Status seekers (Cornea et al., 2011). According to this classification, most of the consumers of this generation are emotion seekers who know their value in society; and the good-tempered and connoisseurs are assigned to the elite that have a lot of money, are highly educated and possess discretion.

Generation Z consumers choose such luxury brands that have certain characteristics: superiority over ordinary brands, expensiveness, fashion (Rhee, Johnson, 2012). Buying luxury goods is also motivated by technological achievement level, exclusivity, price and style, existence of international aspects of these products (Shukla, Srivastava, 2013).

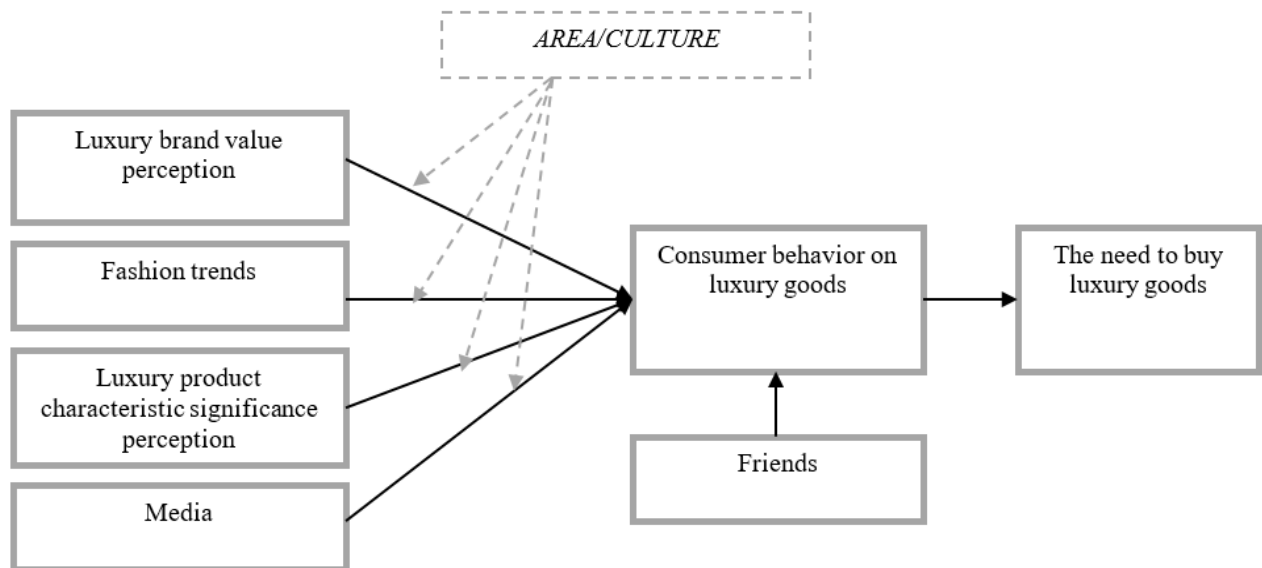
Generation Z is aware of luxury brand symbolic value, by having such items they can be admitted to a certain social circle (Rhee, Johnson, 2012). By purchasing luxury goods available on the market Generation Z consumers form their identity, seek to stand out from their friends, become noticeable and create a positive image (Shukla, Srivastava, 2013). Friends are one of the key motivators encouraging Generation Z consumers to buy luxury goods (Shukla, Srivastava, 2013).

To sum up this subsection, it can be concluded that Generation Z consumers are focused on consumption. They mostly buy fashion and beauty products more than any other generation before has visited food establishments. They like to treat themselves to high-quality products, even when they cannot afford it. The main criteria according to which Generation Z consumers prefer shopping outlets where they would like to shop are the assortment of goods/services, the physical environment and the service personnel. All the factors motivating the emergence of consumer need to purchase the product can be divided into 6 groups: factors related to the very product, consumer, media, friends, fashion trends and product representation. XGeneration Z mostly pay for products in cash and with debit cards, but they consider payments with mobile devices entirely safe.

Generation Z consumers choose such luxury brands that have certain characteristics: are superior to regular brands, expensive and fashionable. They are also aware of the symbolic value of these brands – having such items they can be admitted to a certain social circle, form their own identity and image. The main factors motivating Generation Z to purchase luxury goods are meeting of consumer needs, technological achievement level of products, product exclusivity, price and style, existence of international aspects. Luxury goods advertising draws Generation Z consumers' attention more often than any other product group advertising.

## **3. THEORETICAL MODEL OF GENERATION Z CONSUMER BEHAVIOR ON LUXURY GOODS**

To sum up the presented research findings, the author generalized aspects of luxury goods and Generation Z consumer behavior in the luxury goods market in this article, a hypothetical formation model of Generation Z consumers' need to purchase is presented (see Fig. 2).



Source: created by the author

**Figure 2.** Generation Z consumer behavior on luxury goods model

As can be presumed from Figure 2, the need to purchase a luxury product for a Generation Z consumer is formed by its behavior on luxury goods, which in turn is determined by five main groups of factors: luxury brand value perception, fashion trends, characteristic significance perception of the luxury product, friends.

Seeing that further in this article theoretical interpretations of China’s and Hong Kong’s Generation Z consumer behavior in the luxury goods market are briefly presented, the area in Figure 2 of the model is shown as a factor influencing the need to purchase luxury goods for Generation Z. Such a proposal was submitted to express ideas of scientists that dominating trends of Generation Z behavior on luxury goods are not identical in different areas (Consultancy.uk, 2014; Sharon et al., 2015; Jung et al., 2014; Park et al., 2008). Thus, even the developed model presumes that an area can affect the value of Generation Z consumer luxury product and the main characteristics of this product perception, fashion trends, nature and impact of the media, while at the same time consumer’s behavior on luxury goods.

#### **4. REVIEW OF THE MAIN FACTORS THAT FORMED DIFFERENT CONSUMER BEHAVIOR OF GENERATION Z RESIDENTS IN MAINLAND CHINA AND HONG KONG**

China and Hong Kong can be described as a political entity ‘state within a state’. Hong Kong belonged to the People’s Republic of China when it was colonized by Great Britain in 1842. Until 1997, Hong Kong was subordinate to England and during that time European cultural, economic and political trends and Western-oriented trade relations prevailed in the country. English language became equivalent even to the Chinese language in the country. Nevertheless, after a series of political events in 1997, Great Britain and the People’s Republic of China had agreed on the further destiny of Hong Kong: China’s Special Administrative Regions status will be granted for this territory for 50 years (until 2047), after which Hong Kong should again be connected to the rest of mainland China by equal rights. Although it has been nearly 20 years since the last decision, research results show that despite the governing efforts of People’s Republic of China the majority of Hong Kong’s people remained focused on the West and would prefer to once again become part of Great Britain rather than ultimately become part of China (Bedunkevičiūtė, 2014).

Thus, considering the information above it can be presumed that mainland China’s and Hong Kong’s historical, political, economic and cultural connections and oppositions formed a different Generation Z consumer behavior as well as their tendency to consume luxury goods.

##### **4.1 REVIEW OF MAINLAND CHINA’S GENERATION Z CONSUMER BEHAVIOR IN THE LUXURY GOODS MARKET**

China is home to about 260.2 million Generation Z representatives, i.e. 14 percent of all the individuals living in the world that represent this generation (Sonica, 2015). The scientific literature

contains few studies that let us evaluate China's Generation Z consumer behavior, moreover their tendency to purchase luxury goods (Fan, Li, 2010). Studies were carried out about China's under-aged consumer views of television advertising (Chan, McNeal, 2004), the country's young consumers' tendency to materialism (Chan, 2003), brand awareness specificity (Chan, 2005; O'Cass, Siahtri, 2014), their behavior on certain product types (Lu, Xu, 2015). There are very little research findings to assess Generation Z consumer tendency to purchase specific luxury brands, and the behavior of these consumers in the luxury goods market. Generation Z consumer behavior when choosing luxury goods is usually studied together with the previous generation of consumers' behavior (Li et al., 2009; O'Cass, Siahtiri, 2014). Despite the lack of scientific research on the analyzed topic, only certain presumptions can be made about the typical China's Generation Z consumer behavior on luxury goods.

It is a scientifically confirmed fact that China's Generation Z consumers tend to materialism (Lu, Xu 2015; Doctoroff, 2005; Dou et al., 2006), like to purchase and use of luxury goods, treat themselves, have high core self-evaluation (Doctoroff, 2005; Dou et al., 2006; Ngai Cho, 2012). Studies have shown that young Chinese consumers are prone to materialism even more than Americans (Podoshen et al., 2011). They look for fashionable, well-known luxury and branded products (O'Cass, Siahtiri, 2014).

These consumers like luxury goods more than any previous generation before them (Doctoroff, 2005; Dou et al., 2006). Their purchases are often impulsive and not so concerned with the necessity, as with the need to use symbolic value of purchased luxury goods (Ngai Cho, 2012). Among young Chinese consumers men are more impulsive buyers than women in choosing luxury goods (Li et al., 2009). Generation Z consumers of the analyzed country are willing to pay a premium price in order to buy a desired luxury product (O'Cass, Siahtri, 2014).

The importance of the symbolic value of purchased luxury goods for the China's Generation Z consumers is confirmed by other scientists' research findings; according to the scientists, these products aim to shape their image and increase their influence (Li et al., 2009) to make an impression (Zhao, Belk, 2007). Luxury brands for this country's young consumers are symbols of status, prestige, high welfare, achievement and success (O'Cass, Siahtri, 2014). Their perception of their occupied social status is linked directly to specific luxury brand possessions (O'Cass, Siahtri, 2014).

China's Generation Z consumer behavior on luxury goods is influenced by certain internal and external factors (Fan, Li, 2010). After interviewing 155 10–13 years old Generation Z consumers in one of the largest cities of China – Beijing, scientists found that those internal factors include young consumers' parents and friends, and external factors include the media, shopping outlets, fashion trends (Fan Li, 2010). As a separate group of factors, these scientists also refer to the characteristics of the most desirable purchasable product – price, taste, brand and market supply. Fan and Li (2010) research findings are updated in the same city by F. Lu and Y. Xu (2015) study results that show that the China's Generation Z consumers' loyalty to a particular product (including luxury) is formed by the caused associations for the consumer and received quality (Lu, Xu 2015; Uncles et al., 2010). Meanwhile O'Cass and V. Siahtri (2014) proved that brand origin is another important factor influencing China's Generation Z consumer decision to choose a particular brand.

China's Generation Z consumers are not loyal to some specific single brand and not constant (as well as when choosing luxury goods) (Lu, Xu, 2015). F. Lu and Y. Xu (2015) after interviewing 333 Generation Z consumers born in the period of 1990–1996 in Beijing have proven that among this generation of China's consumers demand for local origin brands is higher than for foreign. Among the manufacturers of sporting goods for Generation Z in China the most attractive local brands are such as 'Anta', 'Li-Ning'; among foreigners – 'Adidas', 'Nike', 'Kappa' and others (Lu, Xu, 2015).

#### **4.2 REVIEW OF HONG KONG'S GENERATION Z CONSUMER BEHAVIOR IN THE LUXURY GOODS MARKET**

In the scientific literature, there are practically no available research findings to assess peculiarities of Generation Z consumer behavior in the luxury goods market of Hong Kong as a separate state. Information about this country in the scientific literature is mostly presented as a composite component of the Chinese state, without highlighting exclusive Hong Kong's consumer behavior aspects, especially Generation Z consumer tendency to purchase luxury goods.

One of the latest scientific research revealing Hong Kong's Generation Z consumer behavior is a study by T. C. Y. Yip and K. Chan (2012) in Hong Kong that allows to assess the main factors motivating the local Generation Z consumers to choose specific retail stores. Based on the findings of this study, it can be

said that this country's generation Z consumers like to spend money in food service establishments and in fashion and clothing shops. 81 percent of 15–21 years old consumers like to shop the most in these shopping outlets. The main criteria for the Generation Z consumers' preferred shopping outlets are range of goods/services, physical environment and service personnel (Yip, Chan, 2012).

Another significant study carried out on this topic is by N. Katwal et al. (2008). These scientists studied the impact of television advertising on Hong Kong's teenage girls' tendency to purchase fashion products, including the well-known branded products. These scientists found that advertising is one of the main and most important factors affecting Hong Kong's Generation Z tendency to purchase a specific product. Based on the findings of this study it is presumed that more than half of Hong Kong's Generation Z consumers-girls are presented with the products available on the market by advertising, but it does not convince them to purchase them blindly. On the other hand, advertising a new brand accelerates these consumers' need to purchase it (by 80 percent). Mostly Hong Kong's Generation Z consumers are influenced by food product (80 percent), stationary product (70 percent), cosmetics (75 percent) and underwear (75 percent) advertising.

Also, Hong Kong's Generation Z consumer behavior is largely determined by advertising in interactive spaces. Scientific research findings suggest that small interactive games and free gifts can create the greatest brand image (Chu, Cheung, 2006). To draw Hong Kong's young consumers' attention in an interactive space, it is appropriate to use miscellaneous media programming (Chu Cheung, 2006).

In their research findings N. Katwal et al. (2008) present the fact that Hong Kong's Generation Z consumers usually consider their purchases and their consumerist behavior is not spontaneous.

The main factor influencing Hong Kong's Generation Z consumers to choose the specific product seen in the advertisement is brand; low-influencing factors are celebrities, intrigue and visual advertising effects displayed in the advertisement (Katwala et al., 2008).

Various kinds of products advertising affect for Hong Kong's Generation Z consumers depends on the season, i.e. examination session and summer vacation. This phenomenon is determined by the fact that Hong Kong's young consumers are more focused on education than on entertainment (Chu Cheung, 2006).

Hong Kong's Generation Z consumers usually buy cosmetics, food, gifts, stationary products, clothing from their received allowance. They are well-disposed to luxury goods: according to N. Katwal et al. (2008) study findings, nearly half of Hong Kong's Generation Z consumers-girls who participated in the study would like to purchase well-known branded products seen in the ads. They believe that luxury branded goods are known for their quality. Even choosing the daily required products, these consumers usually choose the well-known branded goods (Katwala et al., 2008).

Their parents, friends and product aesthetics play an important role in Generation Z consumers' decision to choose a particular product. It is important for these consumers how their purchased product is appreciated by friends. They create their own social status, image, identity through these products (Katwala et al., 2008). Parent role in Generation Z product choice is highlighted by T. Ming with co-authors (2009).

To sum up this subsection, it can be concluded that Generation Z in Mainland China and Hong Kong has many similarities because of globalization. They all like and use high technologies, prefer unique and high quality items. On the other hand, they have different backgrounds (history, economics, politics, culture, etc.) and it makes some differences on their consumer behavior. China's Generation Z consumers still have a part of their parents' mentality and they are prone to materialism. That's why they like to show off and their purchases are more impulsive and affected by parents, friends and media. Hong Kong's Generation Z consumers usually consider their purchases and their consumerist behavior is not spontaneous. They buy luxury branded goods because they believe that well-known brand items have to be functional and of high quality.

## CONCLUSIONS

1. Luxury is a subjective, relative concept interpretation of which depends on many factors. Key characteristics of luxury goods are their high quality and price, exclusivity, uniqueness, aesthetics, etc. A luxury product allows customers to identify themselves, consolidates their social status and allows them to fulfill their social objectives and experience individual satisfaction. Individual factors motivating consumers to buy luxury goods were grouped into 2 parts: external (related to changes in globalization,

- consumer behavior, socioeconomic environment, etc.) and internal factors (related to changes in demographic characteristics, expectations and needs, etc.).
2. Generation Z consumers are focused on consumption. They like to treat themselves to high-quality products, even when they cannot afford them. All the factors motivating the emergence of consumer need to purchase the product can be divided into 6 groups: factors related to the very product, consumer, media, friends, fashion trends and product representation. The main factors motivating Generation Z to purchase luxury goods are meeting of consumer needs, technological achievement level of products, product exclusivity, price and style, existence of international aspects.
  3. The need to purchase a luxury product for a Generation Z consumer is formed by his behavior on luxury goods, which in turn is determined by five main groups of factors: luxury brand value perception, fashion trends, luxury product characteristic significance perception, friends. Moreover, the developed theoretical model presumes that an area can affect Generation Z consumer luxury product value and the main characteristics of luxury product perception, fashion trends, nature and impact of the media, while at the same time consumer's behavior on luxury goods.
  4. Generation Z in Mainland China and Hong Kong has many similarities because of globalization. However, they have different background and it makes some differences on their consumer behavior. China's Generation Z consumers still have a part of their parents' mentality and they are prone to materialism. That is why they like to show off and their purchases are more impulsive and affected by parents, friends and media. Hong Kong's Generation Z consumers usually consider their purchases and their consumerist behavior is not spontaneous. They buy luxury branded goods because they believe that well-known brand items have to be functional and of high quality.

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## INTERNAL AUDIT AND EXTERNAL AUDIT COOPERATION IN EU COUNTRIES

**IVITA FAITUSA**

*PhD Student, University of Latvia  
Aspazijas bulvaris 5, LV1050, Riga, Latvia*

**ABSTRACT.** There is no common requirement guiding the approaches taken by the European Union (EU) public sector internal audit cooperation with external audit. Relations between these audit systems have developed over time. There are countries with mandatory regulations of internal and external audit cooperation, in some cases cooperation bases on initiatives, to facilitate the auditing process and avoid duplication of work. The aim of this research is to compare the Latvian public administration internal audit and external audit cooperation approach with approaches of the European countries and evaluate each country's internal audit relation with external audit. The methodology includes a comparative study of European countries' public sector internal audit and external audit cooperation from European Union Compendium report, researchers' reports, the existing normative acts, analysing cases and other scientific findings. The main results of the study will highlight where improvements might be required or where changes are necessary.

**KEY WORDS:** internal, external audit, public sector.

### INTRODUCTION

Many entities establish internal audit functions as a part of their internal control (International Standard on Auditing (ISA) 610). ISA 315 addresses how the knowledge and experience of the internal audit function can inform the external auditor's understanding of the entity and its environment and identification and assessment of risks of material misstatement. International standards for the professional practice of internal auditing standard 2050 - Coordination "The chief audit executive should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimize duplication of efforts".

A very important question/problem is how can internal auditors and external auditors work together better for a more productive and efficient external audit within the constructs of the requirements of country government?

The aim of this research is to compare the Latvian public administration internal audit and external audit cooperation approach with approaches of the European countries and evaluate each country's internal audit relation to external audit.

The main results of the study will highlight where improvements might be required or where changes are necessary.

### DISCUSSION

Explanations of International Standard on Auditing (ISA) are wider when compared with International Standards for the Professional Practice of Internal Auditing. In accordance with The International Standards on Auditing (ISA 610), "Using the work of Internal Auditors" we can find *Requirements, Determining whether, in Which areas, and to What Extent the Work of the Internal Audit Function Can be Used to Provide Direct Assistance:*

- 1) determining whether Internal auditors can be used to provide direct assistance for purposes of the audit;
- 2) determining the nature and extent of work that can be assigned to Internal auditors providing direct assistance.

Also we can find another statement in the ISA 610: "The external auditor has sole responsibility for the audit opinion expressed, and that responsibility is not reduced by the external auditor's use of the work of the internal auditors."

Under this heading we find issues relating to the nature and scope of the work, objectivity of the internal audit function, timing and other practical matters (Bonicci, 2010).

According to the International Standards on Auditing (ISA 610), internal and external audit should complement each other the 'modern' approach to financial control aims at drawing assurance from internal audit. For this reason, it is important that linkages be developed between the external and internal audit functions, in particular:

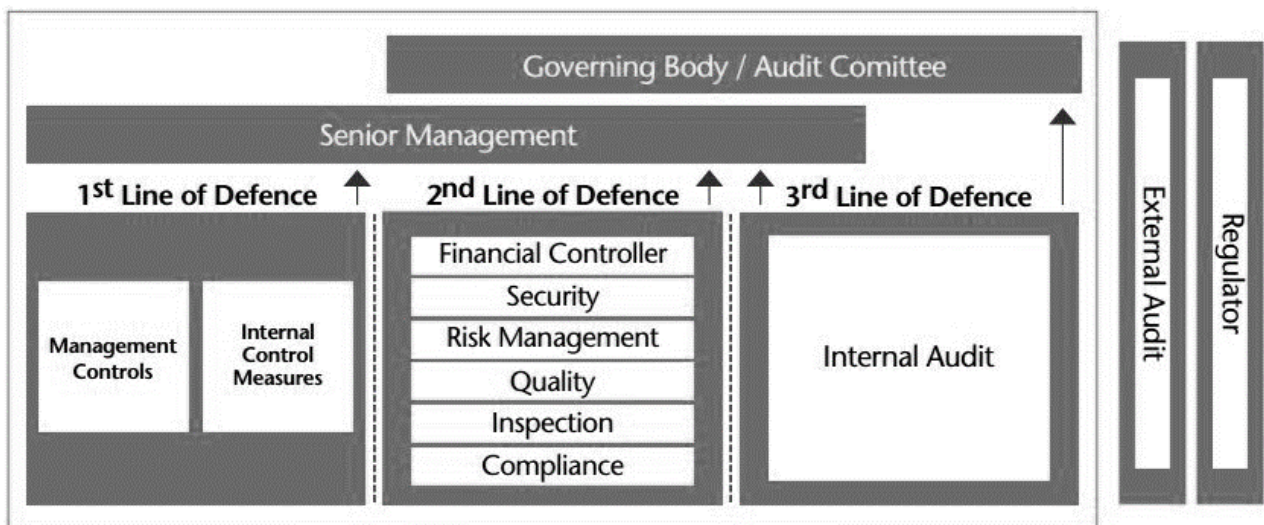
- 1) Consultation concerning the choice of subjects to audit; minimising resource requirements and maximising impact; avoiding duplication of effort; exploiting synergies;
- 2) Ongoing contacts to secure greater insight for risk assessment and in decisions concerning stratification;
- 3) Assessing the potential for even closer cooperation of internal and external audit.

Internal audit plus external audit is not equivalent to a single audit, but to two complementary audit exercises, both intended to enhance the management of EU funds. They are two functions which can benefit from each other's work. It is important to nurture closer linkages between the two so that this potential may be exploited while respecting each entity's independence (Bonicci, 2010).

To ensure the effectiveness of an organisation's risk management framework, the board and senior management need to be able to rely on adequate line functions – including monitoring and assurance functions – within the organisation. 'Three Lines of Defence' model as a way of explaining the relationship between these functions and as a guide to how responsibilities should be divided into:

- 1) the first line – functions that own and manage risk;
- 2) the second line – functions that oversee or specialise in risk management, compliance;
- 3) the third line – functions that provide independent assurance, above all internal audit.

As a third line of defence **the internal audit function** will, through a risk-based approach, provide assurance to the organisation's management, on how effectively the organisation assesses and manages its risks, including the manner in which the first and second lines of defence operate (Guidance for boards and audit committees, 2010). Nevertheless, **external auditing** can be considered as a fourth line of defence, providing assurance to the organization's management regarding independent view of the organization's financial statements.



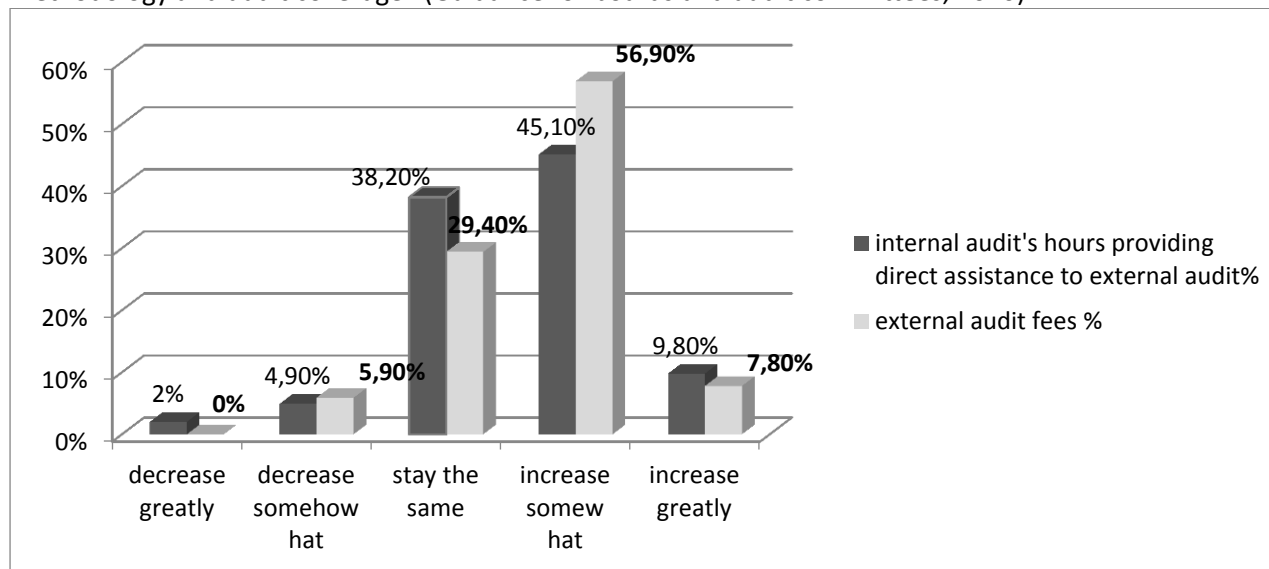
**Source:** Governance of risk: Three lines of defence. Available at: <https://www.iaa.org.uk/resources/audit-committees/governance-of-risk-three-lines-of-defence/>

**Figure 1.** Three lines of defence.

External auditors, regulators, and other external bodies reside outside the organization's structure, but they can have an important role in the organization's overall governance and control structure. This is particularly the case in regulated industries, such as financial services or insurance. Regulators sometimes set requirements intended to strengthen the controls in an organization and on other occasions perform an independent and objective function to assess the whole or some part of the first, second, or third line of defence with regard to those requirements. When coordinated effectively, external auditors, regulators, and other groups outside the organization can be considered as additional lines of defence, providing assurance to the organization's shareholders, including the governing body and senior management. Given the specific scope and objectives of their missions, however, the risk information gathered is generally less extensive than the scope addressed by an organization's internal three lines of defence (IIA, 2013).

“Although external audit and internal audit have some complementary relationships, coordination of their activities is essential. Internal audit's evaluation of the internal control systems provide significant

information for the external auditor's assessment of control/ risk affecting the financial statements. The ideal situation is when the external and internal auditors meet periodically to discuss their scope of work, methodology and audit coverage."(Guidance for boards and audit committees, 2010).



Source: Author's construction based on Interesting Roles..., (2015).

**Figure 2.** Assessment of the impact of external audit has increased scrutiny of their work, 2014.

The North American Pulse of Internal audit survey (102 auditors) was completed in November 2014; respondents in publicly-traded companies that reported experiencing somewhat or greatly increased scrutiny since 2013 are noted in Fig. 2. More than half of respondents said they anticipated an increase in the number of hours of their main functions, 38% expected the number of hours to stay the same, and 65% of respondents said that they expected an increase in audit fees but 29% expected the fees to stay at the same level (Interesting Roles..., 2015).

The reliance on an internal audit function from the point of view of external audit is determined by the following factors: objectivity of the internal auditor, competence and work performance in relation to financial audit related activities (Swinkels, 2012).

Independence of internal audit also involves clear demarcation of responsibilities in relation to external audit. There is a possible case for constructive cooperation (Diamond, 2002):

- 1) proper coordination, minimizing duplication;
- 2) access to each other's plans;
- 3) periodic meetings;
- 4) exchange of audit reports;
- 5) mechanism to ensure common understanding and sharing of methods;
- 6) sharing of training, exchange of staff.

## CASE STUDIES

**Baltic States countries.** External audit institution reflects traditional audit function. Unfortunately, there has often been confusion in the separation of roles of both internal and external institutions. While lines of reporting have been different – the Internal audit to the Ministry of Finance and external audit to the legislature – some overlapping functions are evident (Diamond, 2002). In different ways, all countries organize internal audit and external audit cooperation - meetings once a year in Latvia, in two levels in Estonia and with sharing audit experiences in Lithuania.

**Table 1**

Internal and External Audit cooperation in EU countries		
Country	Internal audit and external audit cooperation	Legislation
Estonia	With National Audit Office in 2 levels: Ministries IA units and Ministry of Finance	2005- IA coordination service 2006 – "Blueprint for the IA of authorities with executive power" 2010 - Auditors Activities Act of Estonia, 2013



Country	Internal audit and external audit cooperation	Legislation
Latvia	The State Audit Office arranges meetings with IA once a year	2002- 2008 Internal audit law 2010- new Internal audit law and regulations-standards requirements 2013- last Internal audit law- improving the regulatory framework
Lithuania	Based on legislation. Sharing audit experiences	2003 - Law on Internal Control and Internal Audit 2003- Standard Charter of IA Unit; IA methodology; IA guidelines
Malta	Informal cooperation	Internal Audit and Financial Investigations Act, Ch 461 updated in 2005, 2007
United Kingdom	Cooperation by sharing strategies, plans and working practices to optimize audit coverage and reducing the audit burden on the organization	1960, 1970- changes 1980- Treasury established a central unit to oversee the quality and caliber of internal audit across government. The previous Government Internal Audit Standards have been superseded from April 2013 by the Public Sector Internal Audit Standards
Poland	Internal audit reports are available to external auditors, they should inform each other of any bad management or fraud	Since 2002 Act on Public Finance concerning public internal control was updated in 2005, 2006, 2009

Source: Author's construction based on Compendium...(2014).

For this research the author chose the countries which were included in a previous research about internal audit methodology approaches for continuing research.

**Estonia case.** Internal and external audit cooperation with National Audit Office in two levels: Ministries internal audit units and Ministry of Finance.

**Latvia case.** Internal audit provides external audit with the internal audit unit's strategic plan, annual plan and annual report. External auditors arrange meetings with internal auditors once a year, at which the detected shortcomings, audit priorities for the coming year and possible areas of cooperation are discussed. In 2013, internal and external auditors agreed on necessary actions to be taken to further improve cooperation.

**Lithuania case.** Cooperation based on legislation, sharing audit experiences, common training programs, joint meeting organized by the Audit Committee of parliament, cooperation agreement between different associations, established working groups dealing with development of the existing methodologies, internal control issues etc.

**Malta case.** Informal relations, auditors share information and working papers for evaluating the effectiveness of internal control. In evaluating the effectiveness of internal control, external auditors can use the work of internal auditors, sharing information about annual plans.

**United Kingdom case.** Internal audit and external audit are encouraged to cooperate by sharing strategies, plans and working practices to optimise audit coverage and reduce the audit burden on the organisation.

**Poland case.** The duty of cooperation is determined by normative acts, audits use Internal Audit Standards in the Public Finance sector Entities. Internal audit reports are available to external auditors, they should inform each other of any bad management or fraud, the head of internal auditors should avoid duplications for effectiveness.

European Union Compendium from 2014 shows that there are quite some differences, but overall relations between internal audit and external audit can be formal or informal relations, auditors use legislation or Standards, auditors arrange experience sharing.

The author suggests including internal and external audit cooperation procedures in a common internal audit procedures manual, usage of standards and guidelines for the public sectors in the EU Member States.

## CONCLUSIONS

1. International standards for external auditors and internal auditors work define main principles for effective work and using of each other's reports and information.

2. Relations between internal audit and external audit have to change and informal relations must be formal and mandatory on both sides.
3. Unfortunately, there has often been confusion in the separation of roles of internal audit and external audit. While lines of reporting have been different – the Internal audit to the Ministry of Finance and external audit to the legislature - some of audit functions are the same in both institutions.
4. All countries organize internal audit and external audit cooperation in different ways – having meetings once a year in Latvia; in two levels in Estonia and with sharing audit experiences in Lithuania.
5. In evaluating the effectiveness of internal control, external auditors can use the work of internal auditors in Malta. Both institutions cooperate by sharing strategies, plans and working practices to optimize audit coverage and reduce the audit burden on the organization in the United Kingdom. Internal audit reports are available to external auditors, they should inform each other of any bad managements or fraud, the head of internal auditors should avoid duplications for effectiveness in Poland.
6. There are not a great deal of differences, but overall relations in six European countries between internal audit and external audit can be formal or informal relations, auditors in all six European countries use legislation or Standards, auditors arrange experience sharing.
7. Author suggests including internal and external audit cooperation procedures in a common internal audit procedures manual, usage of standards and guidelines for the public sectors in the EU Member States.
8. Latvia and all these countries need to focus on the good things that they have done and learn from them, countries need starting cooperation between the countries to have a set of EU Standards for the Public Sector.

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## CONCERNING PARTICULAR CHALLENGES IN HUMAN RESOURCES PLANNING (FOLLOWING THE EXAMPLE OF "YAZAKI BULGARIA" LTD.)

**TRIFON STANCHEV**

*BA Student, Shumen University "Bishop Konstantin Preslavski", Faculty of Mathematics and Computer Science,  
115 Universitetska Street, Shumen, 9712, Bulgaria*

**ABSTRACT.** The topic set herein, examines any given organization and its development that is in correlation with the presence of Associates who shall take responsibility and adequately carry out the tasks assigned to them. The basic principle for successful recruitment and selection of Associates is the planning of the need of personnel regarding both time aspect, and their qualification and official position. Planning is viewed as a process ensuring the organizations with the proper Associates qualified and trained to be beneficial during the working process at the respective time and required position.

**KEY WORDS:** planning, human resources, selection methods, organization.

### INTRODUCTION

The development of any organization is connected with the expansion of the production volume, as well as with the increase of the quality requirements regarding its activity results. Every company may succeed if its Associates are ready to take responsibility to adequately carry out the tasks assigned to them. The topic set in this development becomes a question of present interest in view of the huge influence that the human capital has regarding any given company's development. The main principle for the adequate and effective recruitment and selection of Associates is the planning of the need of personnel regarding both time aspect and their qualification and official position. Planning gives the organizations the opportunity to have the proper Associates at the respective time and required position, and at the same time being qualified and trained to work successfully. The aim of this development is to point out particular challenges in human resources planning following the example of "Yazaki Bulgaria" Ltd. In this connection, the following tasks have been set out:

1. To represent the determination process regarding the need of human resources at the organization as a base for its planning.
2. To describe the approach regarding report of quantity and status of the present and additional need of human resources at "Yazaki Bulgaria" Ltd.
3. To summarize the planning process at "Yazaki Bulgaria" Ltd.
4. To observe the challenges that arise during the human resources planning at the company.

This development is based on the Internet inspection, analysis and synthesis of the company data, including information from its page on the Web, and observation carried out by the author during his work at the company.

### 1. EVALUATION OF THE NEED OF HUMAN RESOURCES AT THE ORGANIZATION AS A BASIS FOR ITS PLANNING.

The normal course of the manufacturing process now depends very much on securing the necessary quantity, composition and qualified workforce. The aim of pre workforce planning is to create a staffing structure that meets current and future requirements of the enterprise (ГЕРОБ, 2005: 224).

Human resource planning in the organization is a complex cognitive process aimed at developing an estimate of the human resources in the future period of time, based on the development objectives of the organization, thus identifying ways (including specific action plans) for their security, monitoring, assessment and defining the corrective actions to be taken during the implementation of the process.

Human resource planning takes place in four stages:

- Assessment of demand and supply of human resources and determining the needs of the organization in this regard;
- Formulating strategies and policies for human resources;
- Developing plans for human resources;
- Implementation, monitoring and evaluation plans.

In assessing the demand and supply of human resources a few basic activities are implemented consistently and they include:

- Analysis of the status and trends in human resources in the organization;
- Comparing demand and supply of (workforce) human resources and determining the needs of the organization for them.

An analysis of the status and trends in human resources organization provides important information that is required in subsequent forecasts and to formulate objectives, policies and plans in the field of human resources.

It usually covers a wide range of studies that can be classified into five main groups:

- Current human resources in the organization - number, age, gender, functional, professional, qualification, educational, management and production structure, analysis of the level and types of movements of personnel. The information in this ratio is collected, if possible, also for prior periods, to be able to track trends that are often the basis of forecasts;
- Condition and trends in human resource development in the country and the region - data on demographic processes and structures, information on the educational and professional qualification structure of the employees, data on the economic activity of the population, information regarding the state of the labour market, unemployment, supply and demand of labour in the country and the region;
- Legislation in the field of labour - laws and regulations that are binding the labour Code Ordinance on the conditions of labour legislation in the area of wages and industrial relations;
- Condition and forecast of labour productivity in the organization - measured labour productivity in different departments of the organization, seeking for means and methods to increase productivity through better use of labour, machinery, improvement of the organization and the division of labour; predicted to its level for the next period;
- Organizational structure - to analyze organizational management and production structure - for each unit and positions in it (ШОПОВ, 2009: 76).

As for the evaluation of the need of the organization of human resources, it is considered that these three main prerequisites are required:

- presence at the organization of production plan and labour input norms;
- grouping of personnel according professions and categories;
- choice and application of appropriate methods for evaluation of common needs of human resources (ШОПОВ, 2009, p. 111-127).

Production plan, divided into subdivisions, branches etc., shall be prepared in a raw expression in accordance with the aims and the strategy for their accomplishment. To be able to determine how many and what kind of workers and employees are needed for the organization, the actual volume and labour intensity of the products and services produced, play a major role, rather than the monetary volume of the sales and production planned.

Labour input norms, as well as all products shall be distinguished according to professions, specialties, and qualification degrees. Moreover, organizations use unified grouping of the personnel that is in conformity with the state regulations in this regard. Since June 1996, all organizations in Bulgaria apply the National classification of professions and official positions, which was created in conformity with the national practice in the field of labour, and compatible with the International Standard Classification of Occupations – ISCO 88 (Yazaki, 2016). This classification is subject to continuous update while every year the Minister of Labour and Social Politics of the Republic of Bulgaria certify the changes through the relevant orders. The national classifier of the professions and official positions presents opportunities for grouping of official positions, and inspection of the professional-qualification structure of the personnel as well, which, on the other hand, has an important meaning in human resources planning (ШОПОВ, 2009, p. 111-127).

The methods are fundamental for particular statements regarding the need of human resources depending on the personnel categories, the peculiarities of specific type of labour, and the organizing of working activities as well as workers working under employment rate; workers working flexible hours; coordinator – associates working directly with customers; employees – attending personnel, administration, analytical and applied specialist, managers etc.



According to their essence, the methods are grouped mainly into the following categories:

- Expert Evaluation Method;
- Direct Calculations Method;
- Methods connected with the usage of mathematical models (ШОПОВ, 2009, p. 119-122).

The Expert Evaluation Method is based on the immediate managers' evaluation of the relevant structural units. Their recommendations regarding the workers needed are concluded thus leading to decision making regarding further needs. Usually, this happens through the presentation of "requests" at the unit that is responsible for the personnel management, the person executing such function, or the senior management of the company (according to the structure of the organization). The precision of this method is dependable mostly upon the experience and propriety of the immediate managers. This method is applicable to all personnel categories, as well as in all kinds of organizing of labour activity. Since it is easy to use, it is widely applied in the practice of any sorts of organizations (ШОПОВ, 2009, p. 119).

Direct Calculations Method is considered to be one of the best methods at the evaluation of the needs of workers under employment rate, workers working flexible hours, as well as for Associates working with customers (ШОПОВ, 2009, p. 119). Some consider the use of mathematical models a relatively expensive way for the evaluation of the necessity of workers. Examined subordinations are fundamental for such models together with the relations between variables and the factors settling the personnel quantities – such as labour norms, investments, labour productivity etc. (ШОПОВ, 2009, p. 121).

In practice, what is frequently used is the so-called Interrelationship Method (between separate groups of personnel – according to degree of education, professional training, qualification degree, categories etc.). This method is appropriate especially when the total amount of need for the organization or the relevant unit is assessed, thus being divided into personnel needs with different quality characteristics.

During human resources planning and evaluation of labour demand in the organizations, what is mostly used is a combination of more than one method. We believe that this is particularly necessary and quite reasonable when the planning period is comparatively long and exceeds a yearlong period.

The scientific literature (ВЛАДИМИРОВА, К. et al., 2012; ГЕРОВ, А., 2005; ДАМЯНОВ, А. et al., 2002; ЗЛАТЕВА, Р., 2014a; ЗЛАТЕВА, Р., 2014b; СЛАВОВА, 2004; ШОПОВ, Д. et al., 2009) provides a wide range of definitions of human resource planning in various ways but in general it can be considered that human resource planning is a process which aims to provide the necessary human resources for the organization to help its movement in the intended direction. It could be argued that the process of determination of the human resources as a basis for their planning is defined by the quality of the set analytical and cognitive tasks to resolve at its beginning.

## 2. APPROACH FOR THE EVALUATION OF QUANTITY AND STATUS OF PRESENT AND ADDITIONAL NEED OF HUMAN RESOURCES AT "YAZAKI BULGARIA" LTD.

"Yazaki Bulgaria" Ltd. is 100% owned by the Japan Yazaki Corporation – global manufacturer of automotive components and equipment, air-conditioners and wide range of products in connection with ecology. Main activity of the company is the production of wire installations for automotive use and its main customers are automobile manufacturers such as Renault and Ford. Owner of two of the biggest factories in the cities of Yambol and Sliven, "Yazaki Bulgaria" Ltd. is one of the major employers in South-East Bulgaria. In 2016, the number of employees in the company was circa 5000 persons (Yazaki, 2016). Workload planning of that number of personnel is a responsible and dynamic activity, since it requires the knowledge of factors that do not depend on the company management. The arrangement of personnel working at the enterprise (collectively for both factories) according to divisions, official positions, and number can be seen in Table 1.

**Table 1**

Personnel at "Yazaki Bulgaria" Ltd.

OFFICIAL POSITION/DIVISION	NUMBER OF PEOPLE
Line Operator	3510
Cutting machines Operator	345
Transporter of wires and components	60
Cable/wire Checker	18
Quality Control Inspector	75

OFFICIAL POSITION/DIVISION	NUMBER OF PEOPLE
Machinery and Equipment Maintenance	59
Operator „Repair of Installations“	6
Line Leader	108
Assistant	108
Storeman	50
Shift Manager	21
Engineering Division	500
Division „Labour and Payroll“	60
HR Training Officers	20
Manager	1
<b>Total:</b>	<b>4941</b>

**Source:** prepared by the author according to information presented by "Yazaki Bulgaria" Ltd.

Workload of these workers and employees is previously expected by quality and quantity analyses and forecasts that serve as a basis in human resources planning at the enterprise. The number of people, their subdivision into units and official positions, and data regarding their qualification, knowledge, abilities, and beliefs is the foundation used for the preparation of the analyses at "Yazaki Bulgaria" Ltd. However, we shall place emphasis on various changes and movements that have happened, or are expected to happen during the planning period. In order to forecast the internal supply of human resources, changes regarding present personnel shall be expected. Meanwhile, the streams of people leaving (quitting) must be taken into account together with the internal movements through the separate units and official positions. This way, on the one side, any additional need of workers will be defined regarding the company plan for execution and deriving from the fact that certain number of workers and employees will leave. On the other side, we look for convenient changes regarding the organization policy that eventually will lead to decrease in the negative influence arising from its workers movement. At "Yazaki Bulgaria" Ltd. what has a valuable importance is not only the numbers, but the reasons leading to people leaving as well. During the research of the personnel movement, data collected from a specifically designed inquiry regarding the people leaving, is used. Analysis of the human resources movement at the organization includes the following: internal promotions; demotions and movements. These three types of movements are subject to separate analyses for every structural unit and as a whole for the enterprise.

The additional need of human resources at the enterprise, outlined as a result of these analyses, are further subject to another evaluation in view of the alternative options for the execution of part of the production activities with the power of the present personnel. Later on, we set to human resources planning at company level through the usage of composition of methods of the Expert Evaluation Method and the Direct Calculations Method.

### 3. HUMAN RESOURCES PLANNING AT YAZAKI BULGARIA LTD.

Planning is an important element of any organization activity and plays a key role in the management system as a means for achieving company intentions on the basis of balanced and consistent performance of activities. This very performance allows full reporting of enterprise abilities, as well as the achieving of its purposes (ЗЛАТЕВА, P., 2014, p. 159-163).

Planning process at Yazaki Bulgaria Ltd. can be examined as covering four main stages:

- Supply and demand evaluation; assessment of company needs;
- Strategy and policy framing in regards to human resources;
- Development of a plan and appendices to it;
- Control and evaluation.

Within each of the fields specified in the human resources development plan, various specific initiatives are defined, focused primarily on two aspects:

- Meeting real needs of human resources through reducing of additional needs, increasing opportunities for work implementation via the personnel at hand;
- Meeting real needs of human resources through recruitment and selection of new personnel.

Following determination of general and additional needs of workforce at "Yazaki Bulgaria" Ltd. and report of alternative opportunities for meeting these needs, the organization have the quantity of its actual needs, and planning of initiatives for their fulfilment can begin.

The actual need of human resources at “Yazaki Bulgaria” Ltd. covers the new personnel who have to be employed at the organization for fulfilment of future activities. These actual needs can be negative in case dismissal and/or change of company activities are planned. General needs reflect the number and type of personnel needed for the respective period to the organization. They shall be presented in the form of job table where for each structural unit the number of employees needed shall be specified for each position, type of profession (specialty) and qualification degree (education).

The purpose of human resources planning at “Yazaki Bulgaria” Ltd. is providing the personnel needed in the respective time and place, possessing education, professional competence and qualification required for fulfilment of organization purposes.

Direct connection of personnel planning with every other strategic and operational activity at the organization can be considered part of the process on the creation of interrelated plans system. At the same time, plan work is also directly connected to other elements of the general system of human resources management – analyses and design of positions, financial plans (especially in the part concerning “Salary” fund formation), activities connected with regulation of work relationship (Владиминова, 2012, p. 394-414).

#### **4. CHALLENGES IN HUMAN RESOURCES PLANNING AT YAZAKI BULGARIA LTD.**

Consideration of the challenges faced in human resources planning at “Yazaki Bulgaria” Ltd. is made on the condition that two main alternatives have been considered:

- Emergence of additional needs of human resources at the enterprise.
- “Surplus” of human resources at the enterprise.

The following can be referred to the opportunities for “covering” of additional needs of human resources at the organization:

- Reorganization of structural units work in a way that work tasks can be managed in full or partially by the workers and employees presently employed;
- Extension of working time duration as far as the legal framework permits;
- Assignment of part of work to external contractors;
- Change in technique and technology;
- Taking greater workload from separate workers and employees against additional remuneration, etc.

Our view up to now was that the process of human resources planning at “Yazaki Bulgaria” Ltd. goes taking into account that the company develops and extends its activity and needs additional quantity of human work, i.e. additional human resources. There are periods when company activities “shrink” and the enterprise finds itself in a state of “surplus” of human resources. The easiest – though not the best - solution is connected with part of the personnel dismissal. In that case, “Yazaki Bulgaria” Ltd. looks for opportunities for dismissal limitation. Some of the alternative means used by the organization are:

- Shortening working time and/or introducing flexible forms of employment;
- Offering opportunity for early retirement;
- Sharing of one position between several associates;
- Unpaid leave for a certain period;
- Reducing payment.

Reasons for surplus of human resources are carefully considered at the company. In case that is the result of temporary worsening of company market positions, solutions that can prevent from disconnection with workers are applied in order to avoid their demotivation. It is reported that human resources play a key role in business realization in each company, and directly influence the financial and economic results achieved. In this aspect, employees motivation in work activity is really important for the successful functioning of organizations under market conditions and high level of competition (Златева, 2013, p. 520-526).<sup>24</sup> That is the reason why only in case problems are more serious and rapid stabilization is not expected soon, more extreme measures are preferred.

It can be stated that effective and efficient approach is used in "Yazaki Bulgaria" Ltd. which defines the quality of the process of human resources planning and this in turn leads to positive results for the company in many aspects. That can be proved by numerous awards:

- Certificate by Invest Bulgaria Agency in the "Investor of the Year" competition, "Investment in Human Capital" category (2014);
- "Employer of the Year 2014" Certificate – first place award in the category "Employer of the Real Sector", announced the biggest number of positions for long-term employment and employed applicants to hold them, referred by the Labour Office Directorate, awarded by the Minister of the Ministry of Labour and Social Policy.
- Certificate by the District Governor of Yambol District for contribution to social and economic development of Yambol District (2007);
- Annual award by the Mayor of the town of Yambol for contribution to the improvement of the economic environment in Yambol Municipality for 2008.

## CONCLUSIONS

1. In conclusion, it can be stated that human resources planning at "Yazaki Bulgaria" Ltd. includes organization's strategic views for its activity implementation. Company policy in the field shows what behaviour is expected from Managers in their work with employees. In practice, the focus is the procedures which represent plan-schemes and plan-schedules, placing the performance of specific activities in mandatory sequence, with a term assigned, the individual who shall perform them being indicated personally (or the position the competences for which are relevant for the specific task), documents which shall be prepared in connection with the activity.
2. To sum up, it can be concluded that neither plan would be proper enough, if it is not applied in the practice of the enterprise that prepares it. What is more, it should be noted that the process of its application should be continuously monitored and assessed because the external and internal conditions are dynamic. In this line of thought, the plan of an organization should not be assumed for unchangeable document. Controlling its performance and assessing what was achieved, on the background of constantly changing social and economic environment, every organization should be prepared to show flexibility and adjustment in regards to its plans whether they are connected with human resources or concern other fields connected with its activity.

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## MANAGING GENERATIONAL DIVERSITY IN THE ORGANIZATION

**SIGITA PAUZAITE**

*MA Student, Vytautas Magnus University, Faculty of Arts  
Muitinés St 7, LT- 44280, Kaunas, Lithuania*

**ABSTRACT.** In Lithuania, there are four working generations, which are 4 distinct groups of people. Each generation has different likes, dislikes, and attributes. Sometimes this gives rise to frustration, conflict and misunderstanding. Yet each generation has something worthwhile and exciting to offer. The purpose of the article "Managing Generational Diversity in the Organization" is to determine what management measures should be taken by leaders of organizations to align employees from different generations. The article "Managing Generational Diversity in the Organization" consists of two parts: theoretical and practical. Theoretical part deals with the concept of the term generation, analyzes the characteristics of different generations and the opportunities of managing different generations in organizations. The practical part, carried out in the case study which tries to find out what management practices leaders of organizations tend to use to manage generational diversity in organizations.

**KEY WORDS:** generations, diversity, management, employees, organization.

### INTRODUCTION

*The relevance:* nowadays in our society four different generations with different values and interests, different thinking, buying, eating, learning and working habits live and work. Because of the differences among generations leaders of organizations encounter a problem how to manage employees of different generations in organizations. Future belongs to organizations that employ committed and independent people. It could be achieved by knowing what motivates employees from different generations, how they realize leadership and education. Generational diversity in organizations can be a big advantage if responsibly used.

*The level of topic investigation:* in 2013, R. Čiutienė and R. Railaitė in their article "Employees Age Diversity Management" discuss their different approach to work, their values, their work ethic, appropriate communication and training methods. In 2013, L. Juknevičienė in her article "The Influence of Psychological Contract Factors on X and Y Generation Employees' Commitment to the Organization" explores how psychological factors influence the contract of X and Y generation employee's commitment to the organization. In 2015, A. Petrulis in his article "Managing Employees in the Context of Demographic Changes" analyzes how and what should leaders do in order for employees of different ages not to leave their jobs.

*The article analyzes the scientific problem -* how to manage generational diversity in organizations?

*The object of the article* is generations management in organizations.

*The aim of the article* is to determine what measures should be taken by leaders of organizations to align generational diversity.

*The objectives of the article are as follows:*

1. To analyze the theoretical concept of generation.
2. To analyze proper techniques for managing different generations.
3. To examine the methods of generational diversity management used by the leaders of Lithuanian organizations.

*Research methods:* information for the theoretical part was collected by analyzing scientific literature, meanwhile, the practical part was conducted by a case study.



## 1. THE CONCEPT OF GENERATION

It is worth noting that the term generation is used very widely: in philosophy, history, demography, sociology, biology and so on. Meanwhile, the daily life provides two meanings of generation: as a family and as a social generation. The scientific literature analyzes generation from a social perspective.

Many researchers describe generations in a similar way: their definitions as key factors emphasize the date of birth and life circumstances. For example, B. R. Kopperschmidt (2000) describes generation as a group of people who share the birth date and the major events that happened in the critical period of their development. J. Scott and G. Marshall (2005) say that generation is the age group, whose members were born around the same time). K. W. Smola and D. D. Sutton (2002) summarize previously mentioned definitions of generations and claims that people of different generations are united by historical and social events that affect their development, while at the same time determine generational differences.

N. Howe and W. Strauss (2000) identified seven temporary periods (seven generations), according to which many people have similar values (Table 1).

**Table 1**

Different generations	
Generation	Generation birth period
Lost generation	1883-1900
Greatest generation	1901-1924
Silent/traditional generation	1925-1942
Baby boomers	1943-1960
X Generation	1961-1981
Y Generation/Millennium	1982-2004
Z Generation /Internet	2005- to date

**Source:** HOWE, N.; STRAUSS, W. (2000). *Millennials Rising: The Next Great Generation*. New York: Vintage Books.

Values became the main object of the theory of generations. Characteristic values of each generation are formed in childhood, 2-4 years of life, exposed to social events and family parenting. Values that form in 12-14 years are deep, unconscious and inevitably influence every generation (Howe, Strauss, 2000).

To sum up, the concept of generation means people of similar age and common interests of historical experiences that form their personality. There are seven different generations: lost, greatest, silent/traditional, baby boomers, X, Y and Z generations.

### 1.1 GENERATIONAL CHARACTERISTICS

Generations differ from each other and have different values. Knowing each other helps to build successful communication and effective educational opportunities not only in daily life but also in workplace.

Sometimes modern organizations must deal with five different generations - from the veterans, who often work as counselors, to the new Z generation, which is beginning to wade into labor market. The most dominant three generations are baby boomers, X and Y generations (Songinaitė, 2011).

Steelcase (2009) identified personal characteristics of different generations:

- *Baby boom* generation was influenced by the President of the US George Kennedy, contraception, TV, and "The Beatles". Representatives of baby boom generation are optimistic, self-satisfied, personally advanced and "forever young." They are characterized as highly motivated, persistent, focused on maintaining relationships but self-centered and tend to oppose easily;
- *X generation* was influenced by the Cold War, the British Prime Minister Margaret Thatcher, "Star Wars", rock music, the European Union and car journeys. X generation representatives are



independent, broad-minded, globally-minded, informal, self-reliant, enterprising and self-sufficient. They do not recognize any authorities, are very creative but impatient, skeptical, lazy, unself-confident and tend to criticize;

- *Y generation* was influenced by computers, the Internet, mobile phones and messages, computer games, social networks (Facebook, Instagram, Twitter) and cheap air travels. Y generation representatives are optimistic, civic, social, moral, environment friendly, self-confident but more prone to disappointment and inexperience.

Each generation has its own attitudes to work (Narijauskaitė, Stonytė, 2011):

- *Baby boom* generation takes great care for work ethic. In order to achieve their desired results: material well-being, award baby boomers are able to work long and carefully. They are willing to work overtime and are oriented to the processes, loyal to career and employers but wary of any innovation, do not use high-tech skills. Baby boomers maintain the balance between work and family, but still are more inclined to work: life for the job. They are professional theorists who rely on invaluable experience;
- *X generation*, unlike the baby boomers, has quite a skeptical attitude to work ethic. They have a high desire to balance work and life: work for a living. They are result-oriented, do not like overtime and tend to change their work location, they are not loyal to a single organization. Representatives of X generation have good high-tech skills;
- Representatives of *Y generation* tend to pursue career, technologies and stability. They do not work overtime. Unlike the X generation, they can remain loyal to a single organization. Y generation representatives do not sacrifice their life for the promotion and cannot imagine their life without modern technology.

Summarizing the characteristics of different generations, it can be said that different generations have different values and unique way of thinking. That is why inter-generational conflicts are inevitable. Knowing personal characteristics of different generations and their attitudes to work could solve many problems of communication everywhere where people of all ages come together.

## 1.2. METHODS OF MANAGING DIFFERENT GENERATIONS IN THE ORGANIZATION

To manage employees of different generations the leader of the organization must consider their work approach, their values, their job expectations and then choose the appropriate leadership style.

Leaders of organizations need to be flexible and adapt themselves to different age groups of employees. Also, leaders need to be able to meet expectations of their employees, discover their existing strengths and strengths which they could get while working in a group of employees of different ages (Murphy, 2007).

The lack of equality reduces employee's motivation. This is especially important for teams of employees of different ages because older workers usually get higher payments (Potiemkinas, Filimonova, 2011).

According to Steelcase, Narijauskaitė and Stonytė (2011) insights, some advices can be formulated on how leaders of organizations should deal with the representatives of different generations:

- Leaders of organizations should include *baby boomers* in teamwork, provide clear and concise work expectations. Leaders of organizations should take care about trainings, lower workload, clear and concise job requirements and special equipment: a better workplace lighting, protection against excessive noise, a larger font message boards, ensure that baby boomers have their own workspace and motivate them by material reward;
- Leaders of organizations should assess representatives of *X generation* on their own merits not by age or experience. Leaders of organizations should motivate representatives of X generation by material reward, additional free time or abolish some of the existing rules. Unlike the baby boomers, representatives of X generation need to be offered a flexible work style and location.
- Leaders of organizations should offer representatives of *Y generation* an informal, unusual and playful work environment and the ability to work anywhere and anytime. Y generation can be motivated by the opportunity to work with intelligent people, new challenges and new knowledge, "here and now" feedback and free time.

To sum up, although disputes in organizations with employees of different age groups are much more common than homogenous teams: communication between employees becomes much worse, information is not shared, desire to leave organization, feeling of being insecure, a variety of different generations in organizations is not considered as a disadvantage. Contrary, the variety of different generations can be used for more effective work.

## 2. THE METHODOLOGY OF THE CASE STUDY

*The problem of the case study.* Previous research showed that teams of employees from different generations are going through bad communication. It is noted that employees from different generations, who were involved in a mixed team, feel the desire to leave organization more often. At the same time, it increases absenteeism. All these factors are caused by the conflicts between different generations.

*The aim of the case study* is to find out the management practices used by the leaders of Lithuanian organizations to manage generational diversity.

*The objectives of the case study are as follows:*

1. To figure out which generation makes the most in the labor market.
2. To figure out what are the reasons of the conflicts among different generations.
3. To determine what management practices are used by the leaders of Lithuanian organizations to manage generational diversity.

*The unit of the case study* is managing practices of different generations.

*Data collection procedures:* data were collected through a method of a survey. The survey conducted from 24 June 2016 to 1 July 2016 involving 33 respondents was posted on an online survey site [www.manoapklausu.lt](http://www.manoapklausu.lt).

*The instrument of the research:* the survey consisted of 11 questions.

### 2.1. THE RESULTS OF THE CASE STUDY

The first question was about the participants of the survey. 67% of participants were representatives of Y generation, 24% X generation and 9% baby boom generation.

The second question asked respondents about generational diversity in their workplaces. 91% said that they were working with people from different generations, 9% did not work in organizations with generational diversity.

The third question asked which generation representatives made the most in workplaces. 55% mentioned X generation, 39% Y generation, 6% baby boom generation.

The next question asked about conflicts among different generations. 42% said that in their organizations there were some conflicts among different generations, 39% said that there were no conflicts and 18% had no opinion.

The following question asked about the reasons of conflicts among different generations. Respondents mentioned different values, different views, different experiences, intolerance of other views and disrespect.

The next question asked if respondents noted leaders of their organization behaved differently towards representatives from different generations. 64% said that they did notice any special treatment, 30% did not notice and 6% had no opinion.

Representatives of baby boom, X and Y generations were asked about the behavior of the leader of their organization towards them. 60% of *baby boom* representatives mentioned providing personal workspace, 20% - working possibility in a mixed team, other 20% - motivation through material reward. Respondents did not mention trainings, lower workload, clear and concise job requirements and special equipment such as a better workplace lighting, protection against excessive noise, larger font message boards. 35% of representatives of *X generation* mentioned evaluation based on merit, 30% - motivation through material reward, 20% - motivation giving extra free time, 15% - flexible working style and location. Working motivation of cancelling some of the existing rules remains unmentioned. 27% of representatives of *Y generation* mentioned working motivation by offering new challenges, 22% - working motivation by offering new knowledge, 19% - working motivation by offering an opportunity to work with intelligent people, 17% - opportunity to work anywhere and anytime, 8% - informal, unusual and playful work environment.

The following question was trying to find out the representatives' opinion whether it was important for the leaders of organizations to adjust to the different generations of employees. 91% said that it was important, 6% said that it did not matter and 3% had no opinion.

The last question asked if leaders of organizations devoted sufficient attention to the management of employees from different generations. 46% said that it was not sufficient, 36% thought it was sufficient and 18% had no opinion.

## CONCLUSIONS

1. The concept generation means a group of people with a similar birth date, common interests and historical experiences that form their personalities. There are 7 different generations: lost, greatest, silent/traditional, baby boomers, X, Y and Z generations.
2. Different generations need different management methods: baby boomers like to work in teams, to know clear and concise work expectations, to have their own workspace and to be motivated by material reward. X generation like to be rated on their own merits not by age or experience, also to be motivated by material reward or additional free time. X generation needs a flexible work style and location. Y generation likes to work in an informal, unusual and playful environment, it likes to have a possibility to work anywhere and anytime. Y generation can be motivated by the opportunities to work with intelligent people, accept new challenges and new knowledge, reach "here and now" feedback and have some free time.
3. Leaders of Lithuanian organizations use these different practices for managing generations : for baby boomers they provide personal workspace, the possibility to work in mixed teams, motivation by material reward. For X generation they provide evaluation based on merit, motivation by material reward, extra free time and flexible working style and location. For Y generation they provide working motivation by offering new challenges, new knowledge, opportunity to work with intelligent people, possibilities to work anywhere and anytime and be in an informal, unusual and playful work environment.

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## CULTURAL DIPLOMACY AS A RESOURCE FOR NATIONAL ECONOMIC PROSPERITY

**POLINA PLISOVA**

*BA Student, Borys Grinchenko Kyiv University  
18/2 Bulvarno-Kudriavska St, 04053, Kyiv, Ukraine*

**ABSTRACT.** The purpose of this paper is to analyze the main fields of Culture from the side of using it in Cultural diplomacy and to reveal possibilities of economic benefits for national economy. Research demonstrates some specific examples of countries which actively use cultural diplomacy, not just to create good image, but also to gain some economic benefits. Those examples practically prove economic profitability of that activity. Historical background, in its turn, shows original goals of Cultural diplomacy which are connected with searching for alternative ways of getting income externally, in international space. The paper contains analysis of methods and strategies used to organize the so-called 'cultural business' and some statistical data which demonstrates real economic effect of national culture promotion.

**KEYWORDS:** cultural diplomacy, economic benefits, art, cultural centers, soft power.

### INTRODUCTION

Nowadays we are living in the times of globalization that makes us observe an active process of integration among countries of the whole world. It is quite difficult to be on top of all events and to have a brilliant country image in the international arena, since it requires a lot of efforts. It is not a secret that the basic and the main goal for external and internal policy of every country is their economic growth, economic prosperity. Thus, modern countries have picked up alternative methods for attracting the world's attention, and one of them is Cultural diplomacy.

Cultural diplomacy is the deployment of a state's culture in support of its foreign policy goals or diplomacy, which is now frequently seen as a subset of the practice of public diplomacy, a government's communication with foreign audiences in order to positively influence them. Yet cultural diplomacy has the potential to contribute much more effectively to foreign policy goals, to diplomacy, and to a governments' domestic objectives. To enable cultural diplomacy to reach its full potential however, the practice needs to be understood better, particularly its contributions to national image, branding and social cohesion. In presenting a national image abroad, cultural diplomacy can overcome audience suspicion of official messages and serve to provide substance to national reputation (Simon, 2009, p. 1). The Increased emphasis of cultural diplomacy on the national image, particularly showing a country's modern economic face, reflects the impact of globalization on the manner in which countries engage internationally.

Countries must compete - or at least feel as though they must - for foreign investment and for attracting skilled migrants, high-worth individuals, tourists, students and others. Countries have come to believe that their chances of competing successfully are enhanced by showing their national image to those investing, moving or studying, and this presentation of a national image abroad is now frequently managed by governments within the framework of a nation brand. Despite increased attention on using nation branding to raise a country's profile and present its reputation internationally (Simon, 2009, p.23).

Since the issue of using Cultural diplomacy for country's prosperity is highly important nowadays, it is arousing the great interest of researchers, such as P. Cynthia (2013), J. Nye (2004), K. Herrschner (2015), K. Hwajung (2011), A. Evans and D. Steven (2010), E. Gierlach (2010) .

Despite the obvious relevance of the chosen topic, the state of scientific development is not sufficient, although there are some historiographical traditions in the research of certain aspects of this issue. The last research are focusing mainly on general image of country internationally created by using Cultural diplomacy, while economic benefits of Cultural diplomacy are not analyzed and moreover demonstrated.

Thus, the research aims to analyze the fields of using cultural diplomacy from the side of their economic profitability and to show practical examples which demonstrate real possibility to have economic profit from using cultural diplomacy.

While conducting research, the author used such general scientific methods as analysis, syntax, abstraction, the method of describing, the method of induction, deduction, historical method and so on.

The paper is divided into three parts. In the first part historical background of using cultural diplomacy as economic tool is discussed. Second part demonstrates possibilities to develop education and

promote national culture abroad with economic benefits for the country. The third part shows specific examples of countries which try to make real business on culture, especially national cinema, TV, radio and so on.

### **HISTORICAL BACKGROUND OF CULTURAL DIPLOMACY DEVELOPMENT**

The so-called Cultural diplomacy in its original meaning as a term and as a type of public diplomacy started to be used in the period of Cold War, and even earlier France and Germany focused on “cultural expansion” with cultural relations program before World War I. Soon other nations followed the trend, Great Britain established the British Council for Relations with other countries in 1934 and the United States created the Interdepartmental Committee on Cooperation with the Other American Republics in 1938 and set up the Division of Cultural Relations in the Department of State in order to meet the need for national interpretation (Hellyer, 1951, p. 11-13).

The British Council, established in 1934, has served as a beacon of British values beyond the shores of the United Kingdom, presenting the country as a trading and cultural partner of major importance.

By establishing associations of reciprocal significance with governments, industry and civil society around the world it has built a network of relationships that articulate British political, diplomatic, economic and cultural thought and ambitions. Moreover, its work in artistic, scientific, aid and educational fields over eight decades has built strong and enduring partnerships that link the exercise of social and cultural capital with the pursuit of British strategic priorities. The British Council has addressed itself to a variety of different audiences: from influential figures in the worlds of education, business, science and culture abroad, to participating in the formation of ‘the influential few of the future’ (Gierlach, 2010, p. 201-210). After the war, the British Council focused on Europe and undertook the mission of providing support for foreign students and short-term visitors. Postwar intelligence came to emerge from foreign office for the purpose of profit making in foreign countries. Consequently, the British Council became the world’s largest English language teaching organization with 70 centers in 53 countries (Taylor, 2009, p. 244-265).

During the Cold War, the United States government supported exchange programs for students and artists under the 1936 Convention for the Promotion of Inter-American Cultural Relations, the model for the numerous exchange programs integral to public diplomacy. It helped the spread of American knowledge, skills, and ideas in the war of ideas with Soviet Union. Especially the Information and Educational Exchange Act of 1948 was a successful cultural diplomacy policy to promote a better understanding of the United States. However, after Cold War, cultural diplomacy ceased to be a priority until 1970s. In 1980s, foreign policy has changed considerably as culture has been considered as efficient tools of diplomacy. Mitchell characterizes the cultural diplomacy by saying it is essentially involved strengthening a country’s cultural influence by funding artists tour or by promoting the study of the country’s language and culture in universities abroad (Mitchell, 1987, p. 436-438).

In the United States (US), cultural diplomacy, funded by the CIA and the Division of Cultural Relations of the State Department, was considered to be significant because policy makers understood the link between engagement with foreign audiences and victory over ideological enemies during the Cold War. When the US assumed the mantle of global leadership after World War II, cultural diplomacy became a central part of its strategy. Cultural activities, foreign conferences and intellectual publications were continuously taking place until the 1950s, and the US Information Agency was created during that period (Ki Won Hong, 2011).

As the Soviet Union collapsed down, the US took it as an opportunity to disseminate information through educational and cultural exchange. American Centers began to build up its values in positive perceptions of the US abroad. They functioned as libraries and provided a venue for engagement between visiting American experts and local audiences. Cultural exchange programs, especially such as the Fulbright program and youth exchange initiative called the American Field Service program are designated to cultivate favorable impressions of the US since it has become the greatest military power.

The US encourages foreign educational reforms, extends existing foreign exchange programs and improves the access of foreign public to American institutions and its values. Also the US encourages better cross-cultural understanding and revitalizes American volunteerism abroad. In order to create favorable images, the US is keen to conduct cultural diplomacy by having skilled and committed diplomats to educate the language, culture, and history of their postings. Hence, it is required that the government should

increase fellowship in the study of strategic languages and recruit young people with the requisite language skills into the diplomatic service. In 1980s, foreign policy has changed considerably as culture has been considered as efficient tools of diplomacy (Finn, 2003, p. 15-20).

As the Age of Globalization has arrived, scholars emphasize the importance of the international cultural agenda because cultural products are increasingly swept into the transnational communication and economic flows caused by global informatization. Nye (2004) stressed that “to be culturally powerful – or even culturally significant – in today’s world, a country must be involved in processes of cultural politicization and economization” (Nye, 2004, p. 177-192).

Nowadays Cultural diplomacy is considered as soft power that can be defined as the ability to attract to one's culture and ideology or the agenda, to manipulate in a soft way with political and economic choices of other countries.

Thus, the historical review about involving cultural diplomacy in strategy of foreign policy demonstrates that some elements of Cultural diplomacy began to be used already in the middle of 20<sup>th</sup> century and especially in the period of Cold War as a tool to gain the attention of the world society and settle the status of a respectable country. Well-developed states at that time picked up the idea of a possibility to gain not just attention of the world audience but economic benefits as well.

### **INSTITUTES OF CULTURE AND EDUCATION AS DIPLOMATIC TOOLS IN AN ECONOMIC CONTEXT**

Education is a highly important and fashionable field of social activity. A person who got education (mostly higher education) is considered as competitive on global work market and high quality education is valued. Nowadays education is internationalized. There are a lot of propaganda connected with education (different international exchange programs, establishments that organize the process of educational internationalization, different educational exhibitions and so on), those we can observe through the prism of global cultural diplomatic activity of the countries. The last process was initiated by governments of well-developed countries, as far as they understood that it might be a profitable business branch and one of the tools of soft power.

As good examples, British and the US educational policies might be used as internal as well as external, for proving its profitability. 71 UK universities are in the QS World University Rankings 2016-2017, 4 of which currently ranked among the world’s top 10. The University of Cambridge is currently ranked fourth in the world, while the University of Oxford is sixth, followed by UCL (University College London) at seventh and Imperial College London at ninth place. King's College London (KCL) and the University of Edinburgh are also in the global top 25, while the University of Manchester and London School of Economics and Political Science (LSE) are within the top 40. The US Universities, such as Wageningen University and Research Center, University of California—Davis, Cornell University headed top 10 of the best world Universities. China Agricultural University is also in the top 10. Last counted Universities are potentially attractive for world society and especially students (QS World University Rankings 2016-2017).

Establishing branches of well known Universities abroad is not a less profitable process. There are a lot of examples of American Universities abroad, e.g., American University of Afghanistan, American University of Paris, New York University Florence etc.: British branches are established in different countries as well.

Of course, promotion of education costs considerable amount of money for countries however, a big number of foreign students is a direct profit for national economy of those countries; they are potential consumers of all national services (medicine, food, clothes industry, entertainment industry and so on). And as some statistical research in the UK show, education export has indirect impact on the UK economy. ELT and school-level education help to provide a ‘pipeline’ of prospective students for the UK HE and FE sectors in the future, from which the UK will derive further value. For example, a survey by the Independent Schools Council (ISC) showed that 77% of international pupils at ISC schools go on to universities in the UK. This equates to 8,000 entrants per annum from ISC schools. Figures from the Council of British International Schools (COBIS) indicate that 39% of pupils that left COBIS schools in 2012 went on to study at a UK HEI. Applied across all BSOs, this proportion would be equivalent to approximately 42,000 students. The UK will derive benefit from these students in the form of tuition fee income and living expenditure (Culture Means Business, British Council, 2013).

ELT can also increase the potential pool of international students as it helps more individuals obtain the required level of English to gain entry to UK HEIs. In addition, fee income from non-EU students



studying in the UK is a significant proportion of total income for a large number of HEIs. In 2011/12, fee income from non-EU students accounted for more than 20% of total income at 13 HEIs and between 10% and 20% for a further – together this means that half of all publicly-funded HEIs in the UK earn more than 10% of their income from non-EU students. International students also stimulate demand for courses where domestic demand alone can be insufficient to sustain them, thus ensuring that a wider range of courses are available for all students and some strategically important courses remain viable. For example, for taught postgraduate courses in 2011/12, non-UK students made up 84% of new entrants in electronic and electrical engineering, 76% in production and manufacturing engineering and 67% in computer science (HESA Student Record).

International students in the UK bring diversity to the education sector, helping to provide an international dimension that benefits all students. Engagement in international education, both in the UK and via TNE (educational branches abroad), enhances the reputation and brand recognition of UK institutions and helps project the UK's soft power. The experience of students in UK education helps to create good relations that will enable successful engagement with the next generation of global leaders (HESA Student Record).

TNE also plays a role in promoting the UK as destination for study. Certain models of TNE, such as overseas campuses, can allow UK HEIs to bid for and engage in overseas-funded research projects – e.g. the University of Nottingham's presence in China enables them to bid for Chinese Government research funding. More broadly, TNE enables UK institutions to develop partnerships with overseas counterparts and businesses, which can lead to HESA Finance Record (HESA Finance Record).

International Education – Global Growth and Prosperity: an Accompanying Analytical Narrative is about invitation students to the institution's campus in the UK for further study, from which the institution and the UK economy will derive additional value. International education also helps to strengthen overseas business, research, social and cultural links. Recent research by the British Council found that young people in emerging economies that have learnt English or studied for UK qualifications are significantly more likely to be interested in working with, and doing business with the UK than those who have not.

More directly, delivering accredited courses abroad is likely to create additional demand for UK qualifications and/or educational equipment produced in the UK – e.g. in the branch campuses of UK independent schools. British Council research supports the idea that international students studying in UK universities are more likely to have a higher level of trust in the people of the UK (ABB or equivalent for 2013/14 entry).

Other methods of cultural diplomacy in the field of Education are creating different exchange programs, grants, scholarships, scientific research programs and so on. For example, grants and scientific research programs are indirect benefits for national economy.

Encouraging smart people and providing them with all the necessary conditions for realizing their startups or important inventions in different spheres, government is getting good specialists who could bring money for the country.

The first state which got that idea, were the USA, and as a result all current new technologies are focused there; that is the best method for getting profit. International exchange of persons and projects constitute an integral and essential technique in attaining the general objectives of this educational exchange program. Persons participating in such projects transfer information, knowledge, and attitudes to other countries, and bring back to their own countries which, through personal experience and personal influence, promotes a better understanding of the United States abroad and increases mutual understanding between the people of the United States and the people of other countries. These programs play a leading and direct, personalized role in contributing to the exchange of technical services, of knowledge and skills, and of information regarding developments in education, the arts, and sciences (Manuel, Washington, 1975).

Perhaps the best-known example is the Fulbright Program, which was established after World War II by Senator William Fulbright (D-Ark.) as a way to promote mutual understanding between the people of the United States and the people of other countries of the world. Fulbright grants allow US citizens and nationals of other countries to engage in a variety of educational activities, including university lecturing, advanced research, graduate study, and teaching in elementary and secondary schools abroad. Research on international Fulbright participants found that 99% percent reported better understanding of the United

States and its culture, 96% shared their experiences through media or cultural activities when returning to their home country and 89% reported that their experience allowed them to assume leadership positions after returning home (Fulbright Scholar Program).

The hugest institute of cultural diplomacy, which is a public representative body of the country abroad, is a "Cultural center" or "Cultural Agency". Nowadays a growing number of countries are creating such establishments, which in its concept would look like a small prototype of the country which they are representing. The institutional structure of Cultural agency basically involves Media Library, (where people can find any national literature, educational materials), Cinema club where people are able to watch national cinematograph of that country. The most important and the most profitable thing is Language courses that are usually provided by native speakers. Cultural center is the main promoter of country culture abroad. For better understanding the sense of last called organization and connection between their existence and economic benefits from that, it is necessary to pick up with real examples.

According to the aforementioned Management Statement, the overall aims of the British Council are 'to build mutually beneficial relationships between people in the UK and other countries and to increase appreciation of the UK's creative ideas and achievements' (FCO/British Council, 2007, p. 3).

These aims are pursued by promoting a wider knowledge of the United Kingdom; developing a wider knowledge of the English language; encouraging cultural, scientific, technological and other educational co-operation between the United Kingdom and other countries; promoting the advancement of education (FCO/British Council, 2007, p. 3). The work of the British Council is scrutinized by the Foreign Affairs Committee of the House of Commons as a part of their scrutiny of the Foreign and Commonwealth Office. The British Council is described by the UK government as promoting 'British values, ideas and achievements', strengthening relations between the UK and other countries and as playing a major role in 'maximizing the UK's international influence (Crown Copyright, 2003:7,8). It is also described, together with the BBC World Service, as 'two World-Class institutions with strong brands' (Foreign and Commonwealth Office, 2005:4). The Foreign Affairs Committee of the House of Commons has also been generally favorable in their assessment of the British Council's work. Also it dedicates to "Military English" and "English for Peace" by helping military personnel to express their rights and values for which they are fighting. Furthermore, it provides "Working Abroad" program in over 80 countries for students to take an internship as a part of an international placement working abroad. "Sports Festivals" and "Online Initiatives" are designated to attract young people, and a new community website for English learners and teachers created by the British Council China Region in 2007 records 30,000 members with social networking functionality and a range of pod cast (Hwajung Kim, 2011).

Engagement and exchange programs to support these activities are predicated on the promise of "cultural wraparound", oiling the gears of trade and political relationships through a softer form of diplomacy. Accordingly, the Council supports British foreign policy with 'the velvet glove of high culture,' bridging the gap (as a Non-Departmental Public Body) between politics and culture through meaningful engagement with overseas audiences. The ability to 'operate at one remove from government enhances the range of the UK's public diplomacy, particularly for engendering trust and building relationships with groups less likely to respond to conventional diplomacy' (Carter, 2005, p. 25).

Having international students in the UK higher education sector is valued because it brings tangible economic benefits to the UK but also its effects on building 'mutual understanding'. The incoming students will gain 'intimate acquaintance with modern Britain and they also bring knowledge and abilities that enrich courses, campuses and communities' (British Council, 2006, p. 4).

The contemporary UK is represented as 'modern' and a place where learning from each other is valued. Since the UK higher education sector is seen as world-leading in attracting overseas students, Britain is represented as occupying a superior position in education, which is automatically assessed as intrinsically good.

The British are therefore a promoter of one of the fundamentally good things: education. Furthermore, in the British Council's discursive structure, the British are depicted as good at using education to bring about further good – mutual understanding. The perceived status of the English language in today's world is also another device through which the idea of the British representing 'the good' is pursued. The British Council's work in providing English language education across the world is



repeatedly commended by the government (for instance, House of Commons Foreign Affairs Committee 1999, 2003 and 2006).

The strategic advantage the UK has in the situation where the English language is gaining hegemony as the major means of communication in a globalizing world is also frequently noted. The British are therefore represented as naturally occupying an advantageous position in today's world because of their mother tongue. This opportunity can be utilized in several ways to the advantage of the UK. First, it represents an infinite source of revenue; the demand for English language teaching only increases and the UK's ability to provide high quality English language teaching represents numerous opportunities for the government and the British Council to gain economic profit. It also represents a unique opportunity to influence elites across the world (Atsuko Ichijo, 2011).

The structure of cultural institutes is expanding every day; they are spreading their activities deeper in different fields of art, which allows one country to represent itself in another country from all possible sides. As a result, more citizens of representative countries have opportunities to realize themselves (the amount of work places is increasing) and there is a direct profit for national economy of representative country from promoting there their cinema, theatres, musical bands, radio and so on. For instance, the Goethe-Institute, apart from an extensive range of educational and training programs, offers trainings in the field of intercultural communication and integration, seminars, workshops and advanced training courses for filmmakers in the host countries.

The Goethe-Institutes are the most active ambassadors of German film worldwide. No other “cinema” has more than five million viewers each year in over 80 countries. Roughly 2,500 film screenings take place each year at the 136 Goethe-Institutes: from classic silent films to the latest German box office hits. In cooperation with the German public television stations, the Goethe-Institutes worldwide show outstanding German TV films. Cooperation in the field of quality television is the focus in particular in threshold and transition countries. In addition, the Goethe-Institute works together with broadcasting companies in Germany and abroad on a number of national and international film and television productions (Herrschner, 2015).

Radio is gaining ever-greater attention – in part due to the new opportunities provided by the Internet. Not only reception, but in particular production by users themselves plays an increasing role. The Goethe-Institute therefore supports innovative radio projects. Activities in listening culture will be more increasingly anchored in the future program work of the Goethe-Institute. In cooperation with Deutsche Welle and other broadcasters, the Goethe-Institute offers workshops for radio journalists in particular in developing and threshold countries. In addition, the Goethe-Institute present German Radio play productions in the scope of audio art festivals (Goethe-Institute).

The performing arts are highly appreciated around the world. Through its diverse activities, the Goethe-Institute contributes to enabling encounters and discussion abroad with theatre and dance from Germany. The focus is given to acting, contemporary dance, performance, theatre for children and young people, puppet and marionette theatre as well as modern German theatre. The Theatre and Dance Division acts as an advisor and impulse generator for a variety of projects in the fields of the performing arts, which are held or funded by the Goethe-Institutes abroad. A continuous dialogue generates programs that convey insights into current German theatre and dance, stimulate artistic discourse and facilitate personal encounters between artists at home and abroad (Goethe-Institute).

The various literature promoting measures and programs abroad include most importantly invitations to German authors, the organization of book presentations, readings, author and panel discussions, writing and translating workshops, appearances at overseas book fairs and joint activities with the above partners, that is also one of the ways for national profitability (Goethe-Institute).

The Goethe-Institute translation grants program is the most long-standing and most extensive of its kind in the German language area. Since 1974 translations of over 5,000 books into 45 languages – from children's books to philosophical treatises – have been supported. Such kind of activity is considering as an alternative way to get profit from abroad, which, at the same time, provides a lot of people with work.

Thus, analyzing attractiveness of Education and Cultural institutions as diplomatic tools, as sources of ‘soft power’ from economic side, we can ensure that they are strongly attractive and have a big undiscovered economic potential for future creation of cost-effective and at the same time presentable projects.

## TV, CINEMA, RADIO AS ELEMENTS OF CULTURAL DIPLOMACY: ECONOMIC CONTEXT

Living in the era of information and constant flows of information, everybody understands how important it is to always be aware of all the events. It is even somehow fashionable and respectable to use those sources to get information because of well developed image of some broadcasting companies. Promotion of national broadcasting service, TV and cinema abroad is quite difficult but at the same time worthwhile. TV, cinema, and broadcasting are also sources of economic profit, - tools of cultural diplomacy. Let us prove that with specific examples.

For instance, the British Broadcasting Corporation (BBC), which is a British public service broadcaster and the largest broadcaster in the world by the number of employees, with over 20,950 staff in total. BBC service includes interactive digital television, comprehensive news website, BBC Radio, BBC TV channel (BBC). BBC service is widespread around the world, creating a huge network, which has influence on almost every person in the world directly or indirectly. Thus, contribution of the company to the national economy is huge and it is increasing every day expanding their audience around the world simultaneously.

One more, not less suitable example is American Cable News Network (CNN), which includes the following services: CNN website, CNN Pipeline (video service), CNN Films, CNN TV Channel, CNN radio and so on.

Continuing this topic, it would be appropriate to mention American cultural trade, as it is a perfect example of the best way of promoting national culture and getting good profit from that. The dramatic growth in the reach of American culture and the importance of trade in cultural products has come about largely because technological advancements have made it easier to disseminate cultural products, either for sale or, in the case of broadcasting and new Internet based technologies, for free. Digitization allows video, voice, and data to stream anywhere in the world where a phone line can be strung, and TV already travels directly from satellites to homes around the world. As hardware, software, and networks are growing in sophistication, technology is both proliferating and dropping in price, making increasing numbers of cell phones, traditional phones, computers, television sets, and personal video recorders available worldwide, enabling more people in more places extract new content from the ether (Maule, 2004). It is worth remembering that America's cultural diplomacy was conceptualized, and its core institutions and relationships created, at a time when there were no broadcast satellites, video recorders, personal computers, or Internet; when newsreel footage had to be flown back to the U.S. to be broadcast; when much of the world lacked any access to television or telephone lines – an era, in fact, when governments could rightly claim to be the primary global purveyor of cultural content. (U.S. Annual Report, 2004, p. 30).

Cultural Diplomacy and The National Interest Today, radios, televisions, and Internet cafes have sprouted in even the poorest and most remote areas. The Internet is awash in content. Movies, TV shows, and music are all available for download, paid or unpaid. For the cost of a satellite dish, citizens in many parts of the world have access to a broad array of channels, many of which will either be American or be presenting American products (Arts Industries Policy Forum).

These developments have two consequences. First, millions of people around the world are encountering vast quantities of American culture. These encounters are unmediated – no discussion over coffee at the American Center after the movie, no officials in Washington determining which books, films, or serials might be most appropriate for a targeted audience. Today, the market decides – and, as might be expected, the market mechanism possesses no greater capacity to advance elevated content across borders than it has within the U.S. (Arts Industries Policy Forum).

To quote one close observer: “Satellite broadcasting has changed the international media landscape. Satellite technology now allows broadcasters to instantly reach audiences all over the globe even in areas that lack terrestrial broadcast infrastructures. Satellite broadcasting has seen exponential growth in the Middle East. Nilesat, the most popular satellite distributor in the Middle East, doubled its household reach from 2003 to 2004 (Evers). Second, the democratization of access to technologies guarantees that U.S. culture now has competition. Almost anybody can put up a web page or otherwise register his or her cultural critique. Sometimes it seems as if almost everybody does, and the U.S. can no longer view itself as the world's dominant communicator. According to one estimate, only 9 of the world's 20 most-visited web sites are U.S.-based, with China, South Korea, Japan, and the UK rounding out the list (Glickman, 2005, p.4).

Cultural industries, and cultural exports, in particular, are important and growing parts of the U.S. economy. Broadcasting earned \$10.1 billion in 2000–2001, according to the U.S. Department of Commerce. Foreign box-office receipts for American films, up 24 percent just since 2000, now exceed domestic receipts. Along with DVD sales, international box-office revenue is critically important to the industry, since only 4 of 10 films ever recoup their production costs and only 1 in 10 gets into the black through domestic box-office alone. The film industry trade association, the Motion Picture Association of America, is well aware of the importance of export. MPAA's president and CEO, Dan Glickman, asserts that “alone among all sectors of the U.S. economy, our industry is the only one that generates a positive balance of trade in every country in which it does business.” He has also noted that “the movie industry's share of the American economy is growing – faster than the rest of the economy” (Maule, 2004, p. 5). Technological developments – the availability of movies, TV, and radio over the Internet, the spread of personal video recorders, and other devices – have greatly expanded the potential for trade in cultural products (Arts Industries Policy Forum).

Thus it could be argued that the promotion of national culture via cinema, TV, radio as national news and world news is, from one side, an element of cultural diplomacy which strengthens national image abroad and, from another side, a big area for business. As statistics shows it is really profitable, especially nowadays in times of Globalization, when everybody tries to be connected with all the world and aims to be integrated in international society as much as possible. Such kind of diplomatic tools for getting profit should be an integral part of the country's cultural diplomacy.

## CONCLUSIONS

1. Thus, the research shows the following results. Historically, Cultural diplomacy, already in the middle of XX century started to be a useful tool for gaining world attention and simultaneously for improving economic situation in the country (creating a good investment environment and ways to generate income from abroad). The most successful idea was to create so called 'cultural centers' which would include all possible cultural activities of the country (education, arts, literature, language, etc). As far as that strategy started to work the governments of those countries began to expand the area of their so called 'cultural' presence around the world. Since that moment the elements of cultural diplomacy started being a big profitable business branch in national economy of last countries. Nowadays the number of countries, picked up with utility of using cultural diplomacy is increasing and the cultural centers network in the world is expanding as well. Activities of cultural centers abroad bring both direct and indirect income to national economy of the state, receiving money from the sale of educational materials, translated books and other literature, language courses, seminars, lectures and at the same time providing work places for cultural workers.
2. Promotion of education abroad, as statistical data shows, brings billions to national budget. Moreover, different exchange programs, grants attract smart people (potential generators of new ideas) to the country, and direct consumers of national service.
3. TV, Cinema, Radio, Networking, generally considered as profitable business and within the framework of cultural diplomacy, have become good tools of soft power and economically profitable sphere, especially in the era of Globalization and Informatization, when everybody tries to be informed about everything, to be integrated in international society and to be on top of the world.
4. Thus, cultural diplomacy is not just a way for culture promotion, it is an important tool for country's economic prosperity.

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## RELATION BETWEEN PROJECT STAKEHOLDER MANAGEMENT AND EVALUATION CRITERIA OF PROJECT EFFECTIVENESS AND SUCCESS

**RUSNE JANKUNAITE**

*BA Student, Vilnius University, Kaunas Faculty  
Muitinės St. 8, LT-44280, Kaunas, Lithuania*

**DOVILE JANKAUSKAITE**

*PhD Student, Vilnius university, Kaunas Faculty  
Muitinės St. 8, LT-44280, Kaunas, Lithuania*

**ABSTRACT.** In today's constantly changing environment, non-profit and commercial companies tend to face internal management and external competition problems at an increased rate. A well-suited solution to these issues is proper understanding and utilization of the project management field of knowledge. Project management provides formalized and structured means of managing change. It can be viewed as a sequence of actions which are focused to achieve a goal, to gain competitive advantage. A successful project has potential to, in addition to solving company's problems, generate financial benefits. In this case, it is important to define the evaluation criteria of the effectiveness and success of a project. For an extended period, project management effectiveness, was best evaluated using the “iron triangle” approach, however, increasing discussion of the short-comings of the approach points to the need to involve stakeholders into the evaluation process. Hence, to improve the definition of the evaluation criteria, an important knowledge area of PMBOK guide - project stakeholder management, is analysed.

**KEY WORDS:** Project Stakeholder Management, Evaluation Criteria, Project Effectiveness, Project Success.

### INTRODUCTION

It is apparent that core means for manifestation of ongoing globalization are international projects. Hence, project managers face additional challenges in this competitive and changing environment when attempting to create a successful project. Projects are used by companies to develop projects, to solve problems and generate financial benefits. According to Williams (2016), learning lessons from individual projects is increasingly recognized as an important element in improving project-management practice, but the root causes of project success or failure can be difficult to discern even in individual projects. Project managers in different times used different evaluation criteria to determine the success of a project. Wateridge (1995) suggests identifying the relevant evaluation (success) criteria and use it to determine appropriate success factors that could increase the chance of achieving those success criteria, and then select a project management methodology that targets those success factors (Muller, Turner, 2007). In this case success is the main object for project.

The project management literature frequently refers to two components of project success:

1. **Project success factors** - the keys of a project which, when influenced, increase the success; these are the independent variables that make success more likely.
2. **Project success criteria** - the measures used to judge on the success or failure of a project; these are the dependent variables that measure success (Muller, Judgev, 2012).

Implementation of stakeholder needs was considered by several authors (Roeder, 2013; Kerzner, 2010) as one of the most important evaluation criteria of project success. Unfortunately, there are no certain evaluation criteria selected by anyone, regarding the impact of project stakeholder management on project success.

**The scientific problem** – what is the relation between project stakeholder management and evaluation criteria of project effectiveness and success?

**The object of the article** – the relation between project stakeholder management and evaluation criteria of project effectiveness and success.

**The aim of the article** – to investigate the relation between project stakeholder management and the evaluation criteria of project evaluation and success.

The objectives of the article:

1. To explain the connection between project management and project stakeholder management with its processes.
2. To analyze changes of evaluation criteria of project effectiveness and success linking project stakeholder management.

Research methods of the article: analysis of scientific literature using different scientific and historical publications – collection, analysis and distinction of common relations.

## 1. STAKEHOLDER MANAGEMENT AND ITS PROCESSES

Before presenting stakeholder management and its processes it is important to understand what defines a project and project management. **Project** is a unique work, which is made up of interrelated parts and has multiple activities that are connected to each other in both obvious and unrecognized ways (Frame, 2003). Another project definition presented by Cleland and Kerzner (1985) states that project is “a combination of human and nonhuman resources pulled together in a temporary organization to achieve a specified purpose”. It has an aim to fulfill its plan by creating a unique product, service or solving a problem (Project Management Institute, 2008). To reach project goals and to control a project, project management was invoked. Project management is a discipline focused on delivering results and then moving on to the next project (Roeder, 2013). According to PMBOK, “**Project management** is the application of knowledge, skills, tools and techniques to project activities to meet project requirements” (PMBOK, 2000). Fulfillment of these requirements is essential to the success of the project.

Roeder explains that **stakeholders** are all people who are impacted by the outcome of the project needed to conceive the idea for the project, to design the project plans, approve and execute them and close the project (Roeder, 2013). To gain success by implementing stakeholders’ connection with a project and their expectations, project managers need to assure fluent stakeholder management. **Stakeholder management** defines “how the project interacts with various stakeholders. The co-operation of the project organisation with external parties determines the place of the project in its environment” (Westerveld, 2002).

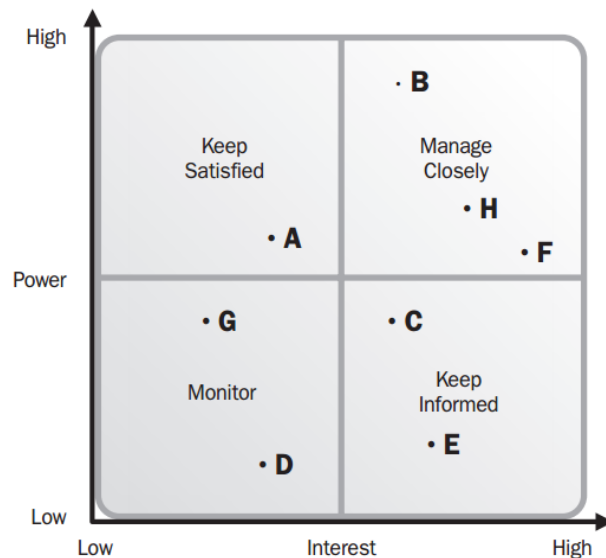
Project Management Body of Knowledge (PMBOK) is an inclusive term that describes the sum of knowledge within the profession of project management. PMBOK defines processes of project management: initiating, planning, executing, controlling and closing. One and the last of ten knowledge areas in PMBOK is project stakeholder management. It includes the following processes:

- Identifying stakeholders - the process of identifying the people, groups, or organizations that could impact or be impacted by a decision, activity, or outcome of the project; and analyzing and documenting relevant information regarding their interests, involvement, interdependencies, influence, and potential impact on project success.
- Planning stakeholder management - the process of developing appropriate management strategies to effectively engage stakeholders throughout the project life cycle, based on the analysis of their needs, interests, and potential impact on project success.
- Managing stakeholder engagement - the process of communicating and working with stakeholders to meet their needs/expectations, address issues as they occur, and foster appropriate stakeholder engagement in project activities throughout the project life cycle.
- Controlling stakeholder engagement - the process of monitoring overall project stakeholder relationships and adjusting strategies and plans for engaging stakeholders (Project Management Institute, 2013).

There are multiple classification models used for stakeholder analysis provided in PMBOK, such as:

- Power/interest grid, grouping the stakeholders based on their level of authority (“power”) and their level or concern (“interest”) regarding the project outcomes;
- Power/influence grid, grouping the stakeholders based on their level of authority (“power”) and their active involvement (“influence”) in the project;
- Influence/impact grid, grouping the stakeholders based on their active involvement (“influence”) in the project and their ability to effect changes to the planning or execution of the project (“impact”);
- Salience model, describing classes of stakeholders based on their power (ability to impose their will), urgency (need for immediate attention), and legitimacy (their involvement is appropriate) (Project Management Institute, 2013).

Figure 1 illustrates an example of a power/interest grid with A-H representing the placement of generic stakeholders.



**Source:** Project Management Institute (PMI), (2013). *A Guide to the Project Management Body of Knowledge. PMBOK Guide – 5<sup>th</sup> ed.* Project Management Institute, Inc. 616 pp. ISBN: 978-1-935589-67-9

**Figure 1.** Example of Power/Interest Grid with Stakeholders

Every project has stakeholders who have positive or negative influence on a project. Some of the stakeholders could have unrecognized influence on a project while others can have magnificent impact on project and its outcomes (Roeder, 2013). In this way, it is important to identify stakeholders, to know which needs the project must fulfill. Additionally, stakeholder management may aid in avoiding unforeseen failure and assuring project success.

## 2. EVALUATION CRITERIA OF PROJECT EFFECTIVENESS AND SUCCESS

Projects always require planning, control and management to get the desired project success: from building Pyramids of Giza to today’s cultural events or festivals by implementing stakeholders’ requirements to gain a favorable outcome. Even from the beginning of projects there were always failures in reaching project goals (Carvalho, 2014). According to Joslin and Muller (2016), project failures are estimated to cost hundreds of billions of euros yearly and are not limited to any specific region or industry.

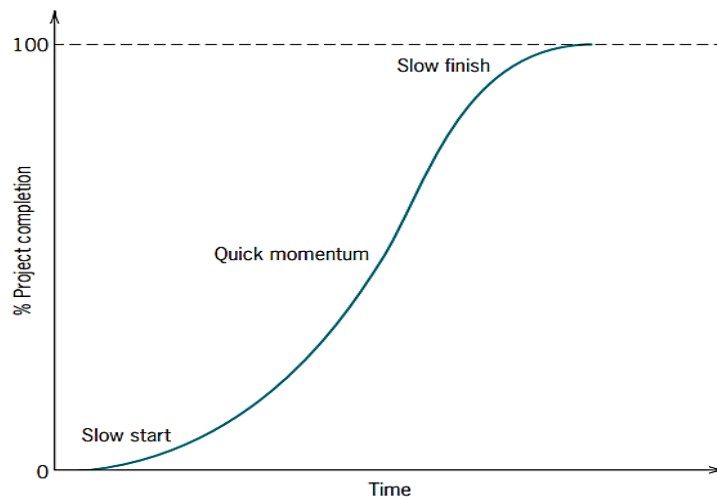
For the purpose of avoiding failures and evaluation of a project, managers are using **critical success factors** – characteristics or conditions that could have an impact of project success (Alias, 2014). It is important to differentiate **success criteria** from success factors: “criteria are used to measure success while factors facilitate the achievement of success” (Baccarini, 1999). Even though success means different things to each industry, company or individual. This article reviews evaluation criteria – success criteria. Project managers are still using traditional evaluation system “**iron triangle**”. It consists of **quality** (what is this project for?), **time** (when does it have to be finished?) and **cost** (what is the budget?) which are the basic criteria to evaluate project effectiveness and success (Badewi, 2015). However, according to Gomes and Romao (2016), projects that failed to meet the original goals of the basic criteria were not necessarily perceived as failed projects. There are many examples of projects that successfully fulfil the “iron triangle” criteria, but turned out to be an unsuccessful business experience. On the other hand, there are projects that have not met the time, cost and quality constraints but later became successful. For this reason, later various attempts were added to basic criteria (Atkinson, 1999). Over the years it still has a strong hold among project managers but evaluation criteria for projects has changed. For a few decades, different authors (Alias, 2014; Badewi, 2014; Carvalho, 2014; Judgev and Muller, 2005) were researching/examining project management and its parts to find the best success criteria but in constantly changing environment projects had to adapt, so studies must be updated.

Evaluation criteria for success from previous literature:

- Morris and Hough (1987) concluded that success is dependent upon perceptions of multiple stakeholders involved in a project and the time during the project when success is measured. Their framework is still largely based on the “iron triangle”, but it takes part from a contractor perspective.
- Sanvido (1990) explained that success is when expectations for different stakeholder are met. However, these expectations could differentiate between each stakeholder (Alias, 2014).

- Pinto and Pinto (1991) suggested new success criteria to evaluate satisfaction of interpersonal relations but later this criterion was rejected due to being too subjective (Chan, 2001).
- Kumaraswamy and Thorpe (1996) included a variety of criteria in their study of project evaluation. These include meeting budget, schedule, quality of workmanship, client and project manager’s satisfaction, transfer of technology, friendliness of environment, health and safety (Chan, 2001).
- Lim and Mohamed (1999) believed that project success should be viewed from different perspectives of the individual owner, developer, contractor, user, the general public and so on. They proposed two categories: the macro and micro viewpoints of project success.
- From a Project Management perspective, critical success factors (CSFs) are characteristics, conditions, or variables that can have a significant impact on the success of the project when properly sustained, maintained, or managed (Alias, 2014).
- In the late 1990s, however, project management scholars shifted toward a more people-focused perspective. In this view, success is measured by the interpersonal and behavioral skills of project teams as well as customer and stakeholder satisfaction (Judgev and Müller, 2012).

K. Judgev and R. Muller (2005) distinguish changes of evaluation criteria of project success and effectiveness in 4 periods of time: 1960s-1980s, 1980s-1990s, 1990s-2000 and 21<sup>st</sup> century. Evaluation criteria were divided in parts, using project life cycle. Project life cycle includes stages from its beginning till the end (refer to Figure 2). Firstly, the project has its start-up phase, a manager, the project team and resources are selected, the plan is organized. As work progresses, momentum is accumulated. Then the progress is going until the end of the project. But completing final steps of the projects takes a lot of time, so the work slows down because some parts must get together and some members are avoiding the final steps (Meredith, Mantel, 2009).



**Source:** Meredith, Jack R., Mantel, Samuel J. (2009). Project Management. A Managerial Approach. 7th ed. John Wiley & Sons. 607 pp. ISBN-13 978-0-470-22621-6.

**Figure 2.** The Project Life Cycle.

**Table 1**

Measuring success criteria across project and product life cycles

PROJECT LIFE CYCLE					
Conception	Planning	Production/ Implementation	Handover	Utilization	Closedown
		1960s-1980s: Project Implementation and Handover			
		1980s-1990s: CSF list			
		1990s-2000: CSF Frameworks			
21 <sup>st</sup> century: Strategic Project Management					

**Source:** Judgev, K., Muller, R. (2005). A Retrospective Look at Our Evolving Understanding of Project Success. Project Management Journal. No. 36, pp. 23-24.





As we see from Table 1, stakeholder management during the years slowly and gradually entered project management as an important part of project evaluation. In Table 1, project management of the first period (1960s-1980s) was focused on project implementation and handover. The main project aim was to finish the project (orientated to “iron triangle”), so there was minimal connection with customers (Atkinson, 1999). There was just theoretical knowledge but it lacked empirical work.

The period of 1980s – 1990s was about developing CSF lists. CSFs are the “elements required to create an environment where projects are managed consistently with excellence” (Judgev, Muller, 2005). In this period stakeholder satisfaction started to be important as an indicator of project success and effectiveness. Also, success was measured with just one criteria, rather than including more criteria to evaluate project success and effectiveness (Judgev, Muller, 2005).

During 1990s-2000 more comprehensive CDF Frameworks were made. It was a period when studies offered stakeholder management as influencing criteria for project success. It included interactions between internal and recipient organization (Kerzner, 1987). In this period, the framework of Morris and Hough (1987) was one of the most detailed works of continuing CSF lists. They separated critical success factors: project objectives, technical uncertainty innovation, politics, community involvement, schedule duration urgency, financial contract legal problems, implement problems (Belassi, Tukel, 1996).

The 21<sup>st</sup> century is proving to be more stakeholder oriented, focused on project success being dependent on the project life cycle (short term goals) and not on the wider organization (long term goals) (Turner, Muller, 2007; Davis, 2014). This suggests a gap to examine how the organization views a project, through combining short and long term goal angles (Davis, 2014). R. Turner and R. Muller (2007) approach moves project success away from the project manager to the project owner having responsibility.

Evaluation criteria of project success and effectiveness were changing during the time and stakeholder management impact on it was also changing (Table 2).

**Table 2**

Alterations of evaluation criteria of project effectiveness and success

Period	Evaluation criteria	Stakeholder management in evaluating a project success
1970–1980	“Iron triangle” includes quality (what is this project for?), time (when does it have to be finished?), cost (what is the budget?).	It is not included but in theoretical way there are some discussions about its importance.
1980–1990	Technical aspects of project and how it relates to customers.	Discussions about stakeholder management as consumers influence on a project success and effectiveness.
1990–2000	Creation of evaluation criteria model of project success.	Project success and effectiveness depend on internal and external stakeholder management. It was the beginning of investigations of the connection between project success and stakeholder management.
21 <sup>st</sup> century	Criteria is oriented towards stakeholder management; project effectiveness and success are evaluated by project life cycle (short term goals). Focus is on project owner.	Highlighting different importance of stakeholder managers’ needs and requirements. Mostly, studies are oriented towards analysis of project manager point of view.

**Source:** created by authors according to DAVIS, K. (2014). Different Stakeholder Groups and their Perceptions of Project Success. *International Journal of Project Management*. No. 32, pp.189–201.

Finally, stakeholders' engagement is negatively affected unless effective and continuous communication with them is maintained throughout the identifying, planning, executing and controlling stages of the project (Beringer et al., 2013; Heravi et al., 2015). A project may fail if poor communication leads to the stakeholders' feeling of unimprovement. Also, implementing a communication plan needs to be considered because it is one of the basic requirements for successful project management (Badewi, 2014). A lot of studies prove that the stakeholder’s point of view to a project has influence on the project (Jankauskaitė, 2014). Badewi also states that stakeholder management is a critical factor for project success (Badewi, 2014). As project success depends more on the perceptions of the stakeholders, probably there is no “absolute success” in project management, but simply a “perceived success” (Gomes, Romao, 2016). In this case, Davis (2014) offers to use stakeholder management as evaluation criteria of project

effectiveness and success. Thus, project managers must be nimble, adaptable, and constantly vigilant to understand their stakeholder environment (Roeder, 2013).

## CONCLUSIONS

1. After defining project, project management, stakeholder and stakeholder management terms, it was stated that stakeholder management is one of the knowledge areas of PMBOK Guide. Stakeholder management has processes of identifying stakeholders, planning stakeholder management, managing stakeholder engagement and controlling stakeholder engagement. For stakeholder analysis PMBOK provides classification models like power/interest grid, power/influence grid, influence/impact grid and salience model. Stakeholder management is one of the most important factors in managing a project.
2. Project managers were mostly using “iron triangle” or its transformations to evaluate project success. In result of analyzing changes of evaluation criteria of project effectiveness and success, it was approved that stakeholder management is making a strong influence on a project effectiveness and success. Projects are proving to be more stakeholder oriented, focusing on project success being dependent on the project life cycle (short term goals). Stakeholder management impact on project success was analyzed from 1960s and slowly in time took a place as important evaluation criteria from discussions about its importance to connection between project managers and stakeholders in the 21<sup>st</sup> century.

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## IS CULTURE IMPORTANT TO THE SECURITY OF THE STATE?

**LAURA BLEIZGYTE**

*MA Student, Vilnius University, Kaunas Faculty  
Muitinės St 8, LT-44280, Kaunas, Lithuania*

**ABSTRACT.** From the sociological point of view, culture is understood as a factor of public life that organizes ideas, principles and social institutions which ensure collective human life. Culture is perceived as a way of life, it is characterized by a certain group of people. It is a system of signs, associations, behaviour and ways of communication that people make and which has a meaning for them. Culture managers' mission is more focused on the consumer society and its education, and cultural managers or arts organizations must implement an education strategy that encourages society to care about arts while cultural events play their educational mission. Culture is also used as a tool of the soft power by making others to wish the same things. Soft power is a component of national security, only its resources are slower and more complex as compared to solid power. Culture is not only a soft power tool but also part of soft security that helps to ensure safety of the country.

**KEY WORDS:** soft power, culture, national security.

### INTRODUCTION

**Research purpose** – to analyse the importance of culture to the security of the state.

**The goals of this paper are:**

1. To describe culture.
2. To analyse the impact of culture on national security of the states.
3. To investigate the importance of culture for national security of the states.
4. To analyse the impact of public diplomacy to security.

**Methodology** – analysis of documents.

From sociological point of view, culture is understood as a factor for organizing public life, ideas, principles, social institutions that ensures collective life of people (Pruskus, 2013, p. 122). Summarising opinions of authors (M. Harris, M. Kavolis and E. Gellner), culture is perceived as a way of life to a typical certain group of people. Culture is a system of signs, associations, behaviors and forms of communication that people created, and which has meaning to them (Pruskus, 2003, p. 48-49).

Culture has various expressions especially when separating high culture which includes literature, art, and education for the elite, from the popular culture which focuses on mass events. In public life culture plays an important role, especially in decreasing boundaries between high, popular culture and arts. Often, popular culture is attributed to the culture of consumption, although both high and popular culture consumption is available. Cultural life can also be understood as a continuum: on one side is the art and the artist dedicated for creation, and on the other – popular culture serving to consumer (Černevičiūtė, 2008, p. 10-13).

It is important to point out in which context popular culture operates. For example, American fast food restaurant chain McDonald's is visited around the world; films that are created by Hollywood represent the United States as an attractive, exotic, powerful and modern. 62 out of 100 of the most famous brands in the world are American companies. Corporations such as Apple, Microsoft production have become an international standard for the IT market that has no alternative (Isoda, 2010, p. 99-104). Popular culture is easily accessible for everyone and does not require extra efforts to use it, it automatically finds user and forms his worldview and values.

High culture can be defined in different ways. Art and Popular Culture Encyclopedia describes high culture as a term which is used to define cultural products of “the best kind” (elitist point of view). In this category such meaningful parts of society as social, economic, political and intellectual elite are characterized. It is possible to say that consumers of high culture are elite, but sociologists more often use the term elite as cultural understanding of not one but many elites. A. Gaižutis states that earlier elite was assigned to a certain class of members of public – the aristocracy. In today's society, philosophers, sociologists, culturologists started talking about the fact that elite is not a special social group of people, a “caste”, just as there is no purely occupational group, where people are classified to so-called creative or higher professions (Oguliavičius, 2009: 7-8). Culture is available to every social class, only with different instruments and its rendering techniques are different. Culture is often part of everyday life and because of

that it is especially important what information it sends, what "message" it transmits to culture users. For this reason, it becomes easy to manipulate security of the country both inside the state in order to protect the country and from the outside in order to make a positive/negative affect.

## 1. NATIONAL SECURITY

The National Security Strategy of the country is an integral part of the existing political system of the state. National Security priorities are set by people or groups according to their values or based on threats to one or other type of values (Markelienė, 2011, p. 238). These national security concepts associate a common goal – to be able to protect the country, only protecting reasons are different. B. Buzan distinguishes that national security is independent identity preservation, M. Saward highlights threats of military attack, and G. Luiciani underlines aggression from abroad.

**Table 1**

National security concepts

Nr.	Concept	Source
1.	National security is the ability of the country to preserve its independent identity and functional integrity against the forces of change that is considered as hostile.	B. Buzan, J. Baylis and S. Smith <i>The globalization of world politics: an introduction to international relations</i> , 2001, p. 255
2.	National security – a policy area where an independent state protects itself from foreign military attack or from such perspective.	M. Saward. <i>The encyclopedia of democracy</i> . Volume III. Routledge, London, 1995, p. 870.
3.	National security can be defined as an ability to resist aggression from abroad.	G. Luiciani, B. Buzan. <i>Žmonės, valstybė ir baimė</i> . Eugrimas, Vilnius, 1997, p. 50.

**Source:** SENULIS, E. (2014). Emigracijos įtaka Lietuvos nacionaliniam saugumui, p. 32.

State preservation can proceed in several stages. The first one by identifying threats and taking non-military action to defend itself (soft security), the second one - identifying threats and taking military action to defend itself (hard power), and the third one - identifying threats and taking non-military action, under the influence of a threat provocateur (soft power).

### 1.1. THE CONCEPT OF SOFT SECURITY

In many cases, the concept “soft security” means two different sets of social reality. One of these sets is seen as harmful effects, called “soft security threats” or “purposeful soft security issues”. The second is presented as a combination of measures to compensate, reduce or eliminate the harmful effects and is indicated as “solved soft security problems” or “soft security cooperation” (Kavaliūnaitė, 2011, p. 231-246). In the political science literature “soft security” concept is associated with non-military dimensions, a secondary role in the system of international relations and common criteria that covers a range of pluralistic problems.

Originally, the concept was used to distinguish military issues from other relevant security issues, such as confidence-building measures and armament control. Later on, by distributing security concept understanding was attributed environmental themes, international security risks and challenges, such as broad economic, social and political factors that affect the prospects for enhanced security through a stable export and transformation. Soft security involves everything except the proper defence. In this sense, it is not a practical value concept, but soft security agenda can open the decentralized side road towards international cooperation, when in particular circumstances this communication can make complicated easier achievable (Kavaliūnaitė, 2012, p. 20).

The international project “Soft-security within the Euro-Mediterranean partnership go-EuroMed” indicates that there is a difference between soft security and defence. It is claimed that safety tries to reduce or prevent threats, while defence focuses on defending a certain group of people from threats. Soft security or human security is designed for society by developing individual security and keeping freedom from threats to both national and transnational origin (Go-EuroMed, 2006, p. 2-4). Soft security can be understood as a set of specific actions that would create the best of the circumstances to experience aggression. In other words, security is an ability to identify as quickly as possible implicit threats, risks and take action in response to them.

### 1.2. THE CONCEPT OF SOFT POWER

Soft security and soft power concepts are relatively similar and sometimes even confused. This is due to the absence of clear and detailed concepts with defined meanings in Lithuanian laws or other descriptions.

**Table 2**

Soft power/security concepts

Nr.	Soft power concept	Source	Soft security concept	Source
1.	Find a way as to force others to act so, and work towards the same goals as you want.	J. S. Nye. 2004:11.	Non-military dimensions that covers various pluralistic problems.	S. Kavaliūnaitė. 2012:20.
2.	Neorealist offers to evaluate power by so called power resources as material base, which potentially makes others to obey (military capacity, national asset (GDP) and so on.).	Isoda V. 2014:39.	The meaning of the word "security" tries by itself to reduce or avoid threats.	Go-EuroMed. 2006:2-4.

Culture can implement function of protection of the state through soft power by influencing others to protect themselves in such a way protecting. One of such measures is public diplomacy. When a wide flow of information leads to a lack of focus. When people get a lot of information, they have difficulties to evaluate on what they focus. The focus opposed from information is becoming a rarity, and those who in general can distinguish valuable information gain the power. Editors and allusions spreaders become more important, because they are a source of power that can tell us where to focus our attention (Nye, 2004, p. 7).

There are three public diplomacy dimensions (Table 3). All of them are important and require adequate part of information directly from the government and the long-term cultural relationships.

**Table 3**

Public diplomacy dimensions

Communication	Feature
Everyday	Internal and external communication with journalists.
Strategic	Thematic public relations campaigns.
Long-term relationships	Communication with individuals in other countries.

**Source:** ISODA, V. (2010). Minkštosios galios generavimas ir reikšmė valstybių užsienio politikoje XXI amžiuje: JAV atvejis. p. 100-102.

Appearance of public diplomacy basically means purposeful government's efforts to increase their countries' soft power resources instead of leaving such process for itself. Successful public diplomacy strategy includes not only the sphere of public relations but also education system and culture management (Isoda, 2010, p. 100).

Public diplomacy is a part of communication that affects every person of the world population. Part of the national prosperity and security is based on ways of planning and maintaining daily communication with the country's population, and ways of spreading information to compatriots or attracting inhabitants of other cultures.

## 2. THE IMPORTANCE OF CULTURE FOR THE STATE SECURITY

According to J. Hemel, cultural management is a profession which aims to create opportunities for realization of cultural processes (Kuprytė, 2009, p. 17). K. Kuprytė and T. Tamošiūnas in conclusions of their study presented that "cultural management mission is more focused on the consumer, society and its education. Culture manager or arts organizations have to carry out a strategy that promotes public interest in the arts and cultural events which fulfill its educational mission" (Kupryte, 2014, p. 213). Cultural organizations and their educational system are one of the main steps of implementing soft power and strengthening security of the country.

According to K. Hwajung, it is necessary to emphasize the importance of public diplomacy, because soft power stems from the culture, internal values and foreign policy. The world is beginning to recognize Cultures as a diplomatic tool and it is relevant to implement and manage a variety of cultural exchanges, development of effective communication through information technology. Of course, both the Internet and television contributes to our daily lives and in some way brings closer all humanity. Therefore, it is difficult to distinguish between the cultural policy and the virtual space. This creates a challenge for

politicians in developing effective strategies to promote cultural diplomacy through information technology. Cultural policy needs a management system which would develop cultural diplomacy and strengthen international ties funding, as well as promote various cultural content export and lead forward to mutual cultural exchanges (Hwajung, 2011, p. 4-13). Japan could be considered as an example of a country that has used culture as a form of communication. Growing popularity of the Japanese culture and entertainment industries is not accidental. The whole world is familiar with the music, magazines, movies, computer games but certainly popular culture product (anime) cartoons are well known not only in Asia but all over the world (Katzenstein, 2006, p. 256).

Culture itself as a distinctive item can not spread its influence and share it with the humanity. This requires management, cultural management, thanks to which strategies are developed, achievable goals and desired results are obtained. A culture manager's duty is to be able to find a way how to spread their country's culture, promote it, form its image and in this way strengthen its national security.

If the state uses culture for protection of the country (soft security), its population gains "immunity" and is able to resist or respond to negative information. According to A. Jokubaitis, a nation-state by its very nature is a twofold thing – people and the state, culture and politics. All these elements are connected and should help to preserve the national identity, national culture, but so far the political independence is working repellent from the nationality (Jokubaitis, 2006, p. 47). Individuals' roles are meaningful for the creation of the national identity symbols, not only in the traditional local culture, but at its modern and contemporary interpretations. In local communities, secret material technologies are transmitted to the tribes and members of the community, neighbours. Individuals' values represent cultural life forms of the abundance and diversity of cultural identities (Savoniakaitė, 2011, p.10). Close interaction with each other as the dissemination of information is extremely important as a soft security tool for the provision of information, and formation of habits helps a person to be more resistant to external information dissemination.

## CONCLUSIONS

1. Culture becomes an integral part of the formation of national security because it is in every person's life style, which is typical to a certain group of people, in behavior and ways of communication system.
2. Culture is a part of national security by forming identity of a specific population and resistance to external influences. Culture is also a tool for information export across national borders by creating adequate attitude about a country and its people.
3. Because of cultural impact and its unrestricted potential, it is especially important to consider it at the national level and create programs that will help to identify existing and potential threats, and help to find solutions for them.
4. Information disseminators are forming their readers' opinions, therefore they should understand what impact might be done and remain conscious, because public diplomacy is a key tool for soft power.

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## MARKETING MANAGEMENT IN INTERNATIONAL THEATRE FESTIVALS

**SIGITA PAUZAITE**

MA Student, Vytautas Magnus University, Faculty of Arts  
Muitinės St. 7, LT- 44280, Kaunas, Lithuania

**ABSTRACT.** Today's business is underpinned by marketing, its tools and strategies. Art requires marketing, too. Theatres, like any other business, have to sell their products - performances. In order to sell, customers must be found and a relationship with them needs to be established, enhanced and maintained. That is where the question arises as to what marketing measures should theatres take to attract and keep their visitors. The purpose of the article "Marketing Management in International Theatre Festivals" is to examine marketing management in international theatre festivals. The article "Marketing Management in International Theatre Festivals" consists of two parts: theoretical and practical. The theoretical part deals with the marketing concept and its role in international theatre festivals. Marketing management is analyzed through marketing and other business orientations, marketing mix elements, marketing planning and integrated marketing communications. The practical part was carried out in qualitative research, during which marketing management in Kaunas State Puppet Theatre International Festival "Šypsos lėlės ir vaikai" was analyzed.

**KEY WORDS:** marketing management, marketing orientation, marketing mix, integrated marketing communications, theatre festivals.

### INTRODUCTION

*The relevance:* each artistic or cultural organization with some aspirations or ambitions to become known, recognized, popular and financially successful cannot do without marketing and its capabilities of publicity and dissemination of information. International theater festivals are no exception, too. The survey "Advertising Measures in Vilnius and Kaunas Puppet Theaters" revealed that as much as 80 percent of the respondents mentioned a lack of advertising. The survey of Klaipėda State Musical theatre marketing of premiere performances revealed that more than half of the respondents evaluated theater dissemination practices with the statement "average". The survey about theatrical advertisement, in which respondents were asked if theater performances were advertised enough, as much as 75 percent of respondents answered "no".

*The level of theme investigation:* L. Dubinaitė in her article "Marketing Element Analysis in Juozas Miltinis Drama Theatre" performs the analysis of marketing mix elements in Juozas Miltinis drama theater. Through marketing practices the author is trying to determine the best promotion and public attracting aspects in Juozas Miltinis drama theatre (Dubinaitė, 2012). E. Sutkaitytė in her article "Lithuanian Drama Theatres Relationship Marketing – National Kaunas Drama Theatre Case" explores the strategies of relationship marketing of Lithuanian state drama theatres. The concept of relationship marketing, relationships and user types, stages of relationship development, loyalty factors, stages of relationship marketing planning and development process were analysed by comparative literature analysis (Sutkaitytė, 2013). Meanwhile, A. Ginotytė in her article "The Development of Theatre Activity- Marketing Strategy" explores various marketing strategies of Lithuanian theaters (Ginotytė, 2014).

*The article analyzes the scientific problem* - unexploited marketing management opportunities in international theatre festivals.

*The object of the article* is marketing management in international theater festivals.

*The aim of the article* is to examine marketing management in international theater festivals.

*The objectives of the article:*

1. To define the concept of marketing and its role in theaters.
2. To analyze marketing management of theaters through marketing and other business orientations, marketing mix elements, marketing planning processes and integrated marketing communications.
3. To analyze marketing management in Kaunas State Puppet Theatre International Festival "Šypsos lėlės ir vaikai".

*Research methods:* information for the theoretical part was collected by analyzing scientific literature, meanwhile, the practical part was conducted by a qualitative research - interview.

## 1. THE DEFINITION OF MARKETING

Unlike other theories, marketing was not born in scientists' offices, nor can it be attributed to the brilliant discoveries. The main marketing methods and principles were beginning to be used only in the middle of the nineteenth century. Then the accumulation of experience, the relations between producer and consumer, manufacturing and market practices became the first marketing sources. Also, it is worth noting that marketing understanding is changing according to the needs of society and its members.

There are many definitions of marketing. Each marketing definition has two important moments:

1. Marketing meets the needs of users.
2. These needs are met through exchange of products/services.

Marketing theorist Ph. Kotler defines marketing as a public process when consumers meet their needs in products and services exchange. The author considers marketing from managerial side and treats it as analysis, planning process, resource control, enterprise market and policy framework the aim of which is satisfaction and profit of a particular group of customers (Kotler, 2003).

While many believe that marketing is only a business activity and solution of problems, marketing techniques are used by social, political, national, religious, cultural and artistic organizations and institutions. It is used to draw people's attention. This shows that marketing can be used in international theater festivals, too. Marketing in international theater festivals is understood as an important and integral part of the activities of organizations for ensuring public access to culture. International theater festivals marketing can be considered as an activity that provides the representatives of target group - theater festival visitors, gathering in a specific place - theater, at a certain time, in order to send a message transmitted to the festival. The choice of effective marketing tools for international theater festivals can help to expand theater audiences and improve their experiences.

The main purpose of marketing is to create future. Marketing of cultural organizations, as well as international theater festivals, can be poetic and pragmatic at the same time. Thus, marketing should not be related only to the sales curves (Alperytė, 2007).

Marketing in Lithuanian arts and cultural sectors was begun to use only after Lithuania regained its independence. At the time, separate marketing departments appeared, the number of cultural and arts marketing experts and consultants increased, the development of workshops and conferences began. Meanwhile, marketing divisions in the theaters emerged later (Pukelytė, 2008).

In culture and art sectors, including international theater festivals, marketing is necessary to carry out five purposes (Dragičevič Šešič; Stoikovičius, 2000):

- To carry out market analysis;
- To broaden the circle of the audience;
- To promote the dissemination of information;
- To help to get higher incomes;
- To cultivate a sense of ownership;
- To increase working efficiency.

To sum up, theaters produce cultural products - performances which reach their audiences - through marketing practices. Then the audiences on the principle of exchange get what they need – performances, their emotional impact. Because, talking about culture and art sectors – including international theater festivals, we often buy not only products and services, but also experience.

### 1.1. MARKETING AND OTHER BUSINESS ORIENTATIONS

Marketing is one of the most important parts of the international theater festival management system. The selection of the marketing and other business orientations is a survival condition for each international theater festival.

Pranulis (2000) distinguishes these marketing and business orientations:

- *production* is a business management orientation that says that consumers are in favor of goods that are widespread and inexpensive. Therefore it is necessary to improve production process and supply (production methods);
- *product* is a business management orientation when it is believed that consumers will favor the products with exclusive properties of sensitive items (quality of the product);

- *selling* is a business management orientation where it is believed that consumers will buy a product only when the company will make a reasonable effort to sell and support the product (selling methods);
- *marketing* is a business management orientation focused on the maximum consumers satisfaction. This orientation is often accompanied by such expressions as: "find customers and satisfy their needs"; „produce what you can sell, instead of attempting to sell what you produce"; „love the customer rather than a product" (needs and wants of customers);
- *holistic marketing* is a business management orientation where companies focus on consumer needs that meet public interests. The aim of this orientation is to guarantee the long-term conception of each user and general public welfare (everything matters in marketing).

As some of the most applicable business and marketing orientations to cultural activities, including international theater festivals, Kotler (2003) mentions these:

- *product* - cultural products, in this case - international theater festivals performances, divided into categories according to certain selected aspects. Some assumptions about specific market supply can then be made;
- *marketing* helps to reveal the needs of the visitors of the festivals and find out what promotes them to attend international theater festivals performances.

E. Krukauskienė, contrary to the previously discussed Ph. Kotler, claims that all marketing strategies can be adapted to all cultural and art organizations, including international theater festivals. It should be noted that social marketing strategy is more suitable for the mass culture management, and product strategy is more suitable for the elite culture (Krukauskienė, 2007).

To sum up marketing and other business orientations, it can be said that no matter which marketing and business orientation is guided by culture, art or theater, it is usually focused on the end-user market. International theater festivals with the help of marketing and business orientations can analyze the market and the needs of users, then provide the necessary services that are needed for the users. Marketing orientations oriented to the customer (marketing orientation) and to the product are the most suitable for use in the international theater festivals.

## 1.2. MARKETING MIX

Another aspect of marketing management which allows to make important marketing decisions, is a choice of marketing mix model. In order to manage the demand for services, cultural institutions, as well as international theater festivals, not only marketing mix should be used which increases already existing services and the number of users, and also helps to predict the future marketing measures.

Marketing mix can be described as a certain measure which consists of a whole set of interrelated actions and solutions to meet the needs of consumers and achieve marketing goals (Bagdonienė, 2004).

Since there is no consensus on how many items marketing mix should consist of, many theorists tend to combine different elements together. Marketing mix combination can be determined taking into account buyers, end-users and distribution channels. Thus, the marketing mix elements should be considered as interrelated marketing tools that need to be combined optimally.

Marketing distinguishes 5 types of marketing mix models: 4 "P", 5 "P", 7 "P", 4 "C", 3 "E", 5 "W".

- 4 "P": product, price, promotion and place. 4 "P" is the seller's approach to marketing tools which he can use in persuading buyers (Kotler, 2003);
- 5 "P": product, price, place, public relations, positioning (Goldblatt; Hoyle, 2008);
- 7 "P": product, price, promotion, place, packaging, positioning, people. 7 "P"- service-oriented marketing mix model (Gronross, 2013);
- 4 "C": consumer, cost, convenience, communication. 4 "C"- consumer-oriented marketing mix model (Goldblatt; Hoyle, 2008);
- 3 "E": entertainment, excitement and entrepreneurship (Goldblatt; Hoyle, 2008).
- 5 "W": *Why?* - why should a visitor come to the theatre? *Who?* – who are the audience? *When?* - it is necessary to choose a favorable time when you can get your visitors. *Where?* - where the event will have the most benefit? *What?* - each theater festival is unique or marketing could present it as such: interesting and exciting (Hoyle, 2002).

To sum up, marketing mix is a foundation concept in marketing. The marketing mix is defined as the set of marketing tools that are used to pursue marketing objectives in the target market. Many theorists tend to combine different elements together: marketing mix elements are often seen as the controlled variables, because they can be replaced. Organizations, while planning their marketing activities, rely on all of the specific elements of one marketing mix, but each element can be implemented using a variety of alternative means, different strategies. The significance of each element of a particular market situation determine the peculiarities of the target market, the origin of the goods or services, the time factor and the competition. Therefore, the formation of the marketing mix cannot be regarded as an exhaustive process. It must be constantly adapted to the environment, the actions of competitors and market needs.

### 1.3. MARKETING PLANNING

Another aspect of marketing management is planning. Theatres, like any other business, operate in a dynamic environment where changes are a constant phenomenon. As a result, theaters made it a necessity to investigate users' needs and initiate marketing plans.

Marketing planning is the anticipation of future action, the evaluation of opportunities and the choice of the necessary measures for objectives. Marketing plan helps to assess where we are now and where we will be in the future (Rudžionienė, 2007).

Marketing plan for cultural and arts organizations, including international theater festivals, helps to answer the following questions: what situation in cultural institutions is now, what situation is expected in the future and how to succeed in achieving its objectives and tasks?

According to Kotler (2003), marketing plan which can be used not only in business but also in cultural organizations, including international theater festivals, consists of:

- *review* - briefly discuss key aspects of the marketing plan, planning team and the roles of group members;
- *SWOT analysis* - evaluates strengths and weaknesses, opportunities and threats;
- *market research* - analyzes and summarizes the results of consumer research;
- *aims* - identifies expected results;
- *marketing strategy* - develops marketing strategies, describes target segment (user, service, event, program) and marketing complex;
- *action plan* - estimates and describes each step in order to achieve marketing goals. Also, estimates staff personal responsibilities, work deadlines, use of funds;
- *implementation, monitoring, evaluation* - selects the criteria of evaluation, expects the methods of data collection;
- *budget* - estimates the cost of actions and funding sources.

To sum up, planning is beneficial for each type of organization. International theater festivals are no exception, too. Marketing plan provides detailed information about how to develop marketing opportunities of the theater and how to use them best.

### 1.4. INTEGRATED MARKETING COMMUNICATIONS

Another aspect of marketing management is integrated marketing communication. Because of a rapidly increasing amount of information, there is a need to find the way to effectively use the communication tools to make a connection with consumers.

Marketing communication is one of the main modern marketing measures. At a time when competition in the market is very strong, it is no longer sufficient to provide a quality product or service - no less important it is to inform consumers about the availability of goods and services. The main aim of integrated marketing communications is to reach the consumer and change their behavior by advertising and other elements of integrated marketing communicationhis. For this reason, integrated marketing communications are used not only for business but also for culture and art institutions, as well as international theater festivals.

Integrated marketing communication is defined as a strategic business process that is used for planning, expanding, executing and evaluating coordinated, measurable, persuasive brand communication programs including customers and potential customers (Schultz; Kitchen, 2000).

Keller (2009) identifies major tools of integrated marketing communication:

- *advertising* - one of the biggest advantages of advertising is that it can achieve geographically widespread group of users. This feature of advertising is particularly attractive to the organization of international theatre festivals;
- *sales promotion* - a short-term incentives and measures that encourage users to try or buy a product/service. In international theater festivals sales promotion is relevant during application of various discounts;
- *personal selling* is a personal communication to convince a potential buyer to buy a product or use the service;
- *public relations* - the success of each organization, including theaters, depends on public opinion. This is exactly the essence of public relations;
- *direct marketing* - a direct contact with a target user. E-mail is one of the most popular direct marketing tools.

To sum up, integrated marketing communication is a demanding job that needs to combine many different elements: advertising, sales promotion, personal selling, public relations and direct marketing; then choose the best option that would be the most useful, the most effective and with the maximum benefit. It can be said that the integrated marketing communication is becoming an important strategic tool to establish and maintain a relationship with consumers, to disseminate information which are particularly important to international theater festivals.

## 2. THE METHODOLOGY OF THE QUALITATIVE RESEARCH

*The problem of the qualitative research* is the lack of information dissemination in Kaunas State Puppet Theatre International Festival "Šypsos lėlės ir vaikai".

*The aim of the qualitative research* is to explore marketing management in Kaunas State Puppet Theatre International Festival "Šypsos lėlės ir vaikai".

*The objectives of the qualitative research:*

1. To figure out what marketing and other business orientations are used in Kaunas State Puppet Theater International Festival "Šypsos lėlės ir vaikai".
2. To evaluate what marketing mix model is used in Kaunas State Puppet Theater International Festival "Šypsos lėlės ir vaikai".
3. To analyze what parts of marketing plan are used in Kaunas State Puppet Theatre International Festival "Šypsos lėlės ir vaikai".
4. To determine what integrated marketing communication tools are used in Kaunas State Puppet Theatre International Festival "Šypsos lėlės ir vaikai".

*The unit of the qualitative research* is marketing management in Kaunas State Puppet Theatre International Festival "Šypsos lėlės ir vaikai".

*Research method* is a qualitative research.

*Data collection procedures:* data were collected by a structured expert interview with Kaunas State Puppet Theatre marketing specialist Kristina Baguckaitė.

*Reliability of data:* the data are reliable, because they were obtained from a single marketing representative in KSPT.

*The instrument of the research:* the interview consisted of 7 questions.

*Timing:* the interview was conducted on 13 April 2016.

### 2.1. THE RESULTS OF THE QUALITATIVE RESEARCH

*KSPT* - Kaunas State Puppet Theatre

*Interview with* KSPT marketing specialist Kristina Baguckaitė.

The first questions asked about the date from which marketing was used in KSPT International Festival "Šypsos lėlės ir vaikai" and what were the goals of the festival. The answers showed that organizers of KSPT International Festival "Šypsos lėlės ir vaikai" used marketing from the beginning of the festival - since 1991. The main aim of the festival was oriented to product – the quality of the performances of the theatre.

The following question was about the differences between management of the regular theatre activity and management of the international festival "Šypsos lėlės ir vaikai". The answer showed that both regular and festival marketing management was almost the same. It is influenced by the fact that festival "Šypsos lėlės

ir vaikai" is not a one-time event and for its organization the same attention is given as to permanent and principal puppet theater activities. The only difference is that festival marketing gets more time and energy, because it is a prestigious and one of the largest puppet theater genre festivals throughout all Lithuania.

A further question asked which of the 5 marketing and business orientations are used in KSPT International Festival "Šypsos lėlės ir vaikai". The response was identical to Ph. Kotler's assertion that the most suitable orientations for cultural organizations are product and marketing (consumers) orientations. The aspiration of a theatre is the best possible quality in its performances. This is reflected by product orientation. The other desire of a theatre is to meet consumer needs that reflect the marketing (consumers) orientation.

The next question asked what marketing mix model is used in KSPT International Festival "Šypsos lėlės ir vaikai". The answer showed that the main marketing mix elements used by KSPT are: product (performance), ticket price, information about the event (presentation) and a variety of actions of information and promotion to increase visitors' activity. Summarizing the respondent's listed items, it can be said that KSPT in their festival "Šypsos lėlės ir vaikai" use 4 "P" marketing mix model which consists of product, price, place and promotion.

Another question was about the planning process of KSPT International Festival "Šypsos lėlės ir vaikai". The respondent's answer showed that KSPT prepare a marketing plan for its international festival. During the planning process, most attention is paid to advertising, dissemination of information and image formation. It is worth mentioning that KSPT do not do any festival market research because the audience of regular puppet theater performances and festival performances is the same.

The last question was about integrated marketing communications. The respondent said that theater used the following tools of integrated marketing communications: advertising (by word of mouth, cinema and radio advertising, billboards, posters, banners, flyers, festival catalog, press, portals, social media, e-mail), personal selling (theater administrator greets visitors and interacts with them: the main task of the theater administrator is to behave in a such way that all the visitors were satisfied, and ensure their return to the theater again), public relations (theater uses those public relations measures that are adequate to the festival budget, and those that reach the viewer best: publications in newspapers and magazines, press interviews, articles and reports in online portals) and direct marketing (newsletters are sent twice before the festival to 2000 personal contacts by e-mail).

## CONCLUSIONS

1. Marketing is a social process that occurs during the exchange of goods and meets consumer needs. International theater festivals marketing can be considered as an activity that provides the representatives of target group - theater festival visitors, gathering in a specific place - theater, at a certain time, in order to send a message transmitted to the festival. Marketing in the international theater festivals performs 5 purposes: it carries out market analysis, broadens the circle of the audience, promotes the dissemination of information, helps to get higher incomes, cultivates a sense of ownership and increases working efficiency.
2. Marketing management in international theater festivals takes place through a selected marketing and others business orientations, marketing mix elements, marketing planning and integrated marketing communications. There are 5 marketing and business orientations: *production, product, selling, marketing, and holistic marketing*. There are 6 types of marketing mix elements: 4 "P", 5 "P", 7 "P", 4 "C", 3"E", 5 "W". Marketing plan includes: *review, SWOT analysis, market research, aims, marketing strategy, action plan; implementation, monitoring, evaluation; budget*. Integrated marketing communication is carried out through the following measures: *advertisement, sales encouragement, personal sale, public relations and direct marketing*.
3. Marketing management in Kaunas State Puppet Theater International Festival "Šypsos lėlės ir vaikai" is defined through selected marketing and other business orientations, marketing mix elements, planning processes and integrated marketing communications. Kaunas State Puppet Theater in international festival "Šypsos lėlės ir vaikai" use *product and marketing orientations, traditional 4 "P" marketing mix model; marketing planning focuses on the dissemination of information, and the following integrated*

communications measures are used in the theatre: *advertising, personal selling, public relations and direct marketing.*

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## NEURORINKODAROS TEORINIAI ASPEKTAI

IVONA TAMOSEVIC

MA student, Vilnius University, Kaunas Faculty  
Muitinės St. 8, LT-44280, Kaunas, Lithuania

**ABSTRACT.** Neuromarketing opens up new methodological alternatives and gives the opportunity to look at marketing from a different point of view. It is a new possibility to understand and comprehend what is happening in the user's head while he chooses commodity or brand. Moreover, neuromarketing is a way to find new segments of marketing and to gain competitive advantage. The relevance of this article is based on the tendency that companies are paying more attention to the user and are trying to analyse their desires and needs even better. In this article, based on the Lithuanian and foreign publications, theoretical aspects of neuromarketing are analysed. To reveal the specificity of neuromarketing, in this article the conception of neuromarketing and basic aspects are discussed, the history of neuromarketing and its use in practice is observed, the experimental ways of neuromarketing are reviewed and the method of eye tracking is observed. Finally, ethical problems while using neuromarketing research are observed and presented.

**KEYWORDS:** neuromarketing, eye tracking method, neuroethics.

**PAPER LANGUAGE** – Lithuanian.

**SANTRAUKA.** Neurorinkodara<sup>25</sup> atveria naujų metodologijų alternatyvas ir suteikia galimybę naujai pažvelgti į rinką. Tai nauja galimybė suprasti ir suvokti, kas dedasi vartotojo galvoje, pasirenkant tam tikrą prekę ar prekės ženklą. Be to, neurorinkodara – tai būdas surasti naujus rinkos segmentus ir įgyti konkurencinį pranašumą. Straipsnio aktualumas grindžiamas tendencija, jog vis daugiau dėmesio įmonės skiria vartotojui, siekia geriau išanalizuoti vartotojų norus ir poreikius. Straipsnyje, remiantis Lietuvos bei užsienio autorių publikacijomis, analizuojami neurorinkodaros teoriniai aspektai. Siekiant atskleisti neurorinkodaros ypatumus, straipsnyje yra aptariama neurorinkodaros samprata ir pagrindiniai aspektai, pristatoma neurorinkodaros istorija ir jos taikymas praktikoje, aptariami neurorinkodaros eksperimentiniai būdai ir išsamiau aptariamas vadinamasis akių sekimo (angl. *Eye Tracking*) metodas. Be to, apžvelgiamos etinės problemos, kurios gali iškilti taikant neurorinkodaros tyrimus.

**Raktiniai žodžiai:** neurorinkodara, akių sekimo (angl. *Eye Tracking*) metodas, neuroetika.

### IVADAS

Daugelis mokslininkų pabrėžia, kad yra daug būdų ištirti žmogaus fiziologines reakcijas į tam tikras prekes, paslaugas ar veiksnius (Duch, 2007; Morin, 2011; Świda, Kabaja, 2013; Wąsikowska, 2015). Įterpdami neuromokslų technikas tarp kitų rinkodaros tyrimų, ekspertai bando tiksliau išsiaiškinti, kas dedasi potencialaus pirkėjo galvoje. Neurorinkodara, taikydama neurotyrimų metodus bando ištirti ir suvokti, kokie procesai vyksta žmogaus smegenyse per tas milisekundes, kai jis pasirenka pirkti vieną ar kitą produktą.

V. Pruskaus (2011) požiūriu, šiuolaikiniai vartotojai vis labiau linksta rinktis tą gėrį, kuris suteikia daugiausia malonumų, o kadangi žmonės ieško malonumų, yra svarbu nustatyti, kas jiems galėtų juos suteikti. Todėl neurorinkodara, vadovaudamasi įvairių sričių moksliniais duomenimis, tiria žmogaus elgesį, jo siekius, norus ir polinkius, detalai analizuoja individo įsitraukimo į vartojimą motyvus. Be to, vis daugiau mokslininkų tiria, kas lemia didžiąją dalį žmogaus pirkimo sprendimų (Duch, 2007; Pilelienė, 2012; Chernova, Klepikov, 2012; Wąsikowska, 2015).

Neurorinkodaros pagrindinis tikslas – tikslios informacijos apie asmeninius vartotojų norus ir poreikius gavimas, nesiremiant subjektyviais duomenimis, gaunamais įprastomis rinkodaros priemonėmis. J. Świda, B. Kabaja (2013) pabrėžia, kad neurorinkodaros mokslas nesiremia potencialių pirkėjų pritraukimu (to tikimasi iš klasikinės rinkodaros ir reklamos), bet ieško atsakymo į klausimą, kas dedasi vartotojo galvoje, pasirenkant tam tikrą prekę, paslaugą ar prekės ženklą. Tačiau rinkodaros specialistai, atlikdami neurorinkodaros tyrimus, atranda galimybę geriau suprasti vartotoją, jo poreikius ir norus ir taip pat efektyviau patenkinti jų lūkesčius, nes rinkdamasis konkrečią prekę vartotojas dažniausiai atlieka veiksmą

<sup>25</sup> Atkreiptinas dėmesys, kad mokslo darbuose lietuvių kalba ta pačia reikšme vartojamas ir terminas *neuromarketingas*, šiame straipsnyje apsispręsta visais atvejais vartoti *neurorinkodaros* terminą. Pridurtina, kad *rinkodaros* terminą teikia vartoti Valstybinė lietuvių kalbos komisija.



remdamasis emocijomis, kurias priskiria tam tikram produktui ar paslaugai, o ne atsižvelgia į kainą ar realią vertę. Daugelis mokslininkų pažymi neurorinkodarą, kaip vieną iš šio dešimtmečio aktualiausių mokslinių temų (Duch, 2007; Murphy, Illes, Reiner, 2008; Morin, 2011; Świda, Kabaja, 2013; Patrzalek, 2015). Neurorinkodaros teorinius aspektus nagrinėjo užsienio mokslininkai: W. Duch (2007), Ch. Morin (2011), J. Świda, J. Kabaja (2013), W. Patrzalek (2015), B. Wąsikowska (2015). Lietuvoje neurorinkodarą ir neuroetiką tiria V. Dranseika, E. Gefenas, S. Noreika (2009), o L. Pilelienė (2012) analizuoja neurorinkodaros principų taikymą kainodaroje. Analizuodami neurorinkodaros aspektus daugelis mokslininkų pabrėžia etikos problemą (Murphy, Illes, Reiner, 2008; Dranseika, Gefenas, Noreika, 2009; Chernova, Klepikov, 2012; Patrzalek, 2015). Neurorinkodara dar pakankamai nauja sąvoka mokslinėje literatūroje. Taip pat pastebėta tendencija, kad terminas „neurorinkodara“ yra plačiai vartojamas, o pats procesas bei neurorinkodaros taikymas mažai nagrinėjamas. Be to, yra pabrėžiama, kad neurorinkodara – tai naujoji praktinė sritis, leidžianti apibrėžti vartotojų elgesį, taikant tam tikrus rinkodarinius stimulus. Todėl svarbu ir tikslinga yra apžvelgti ir išanalizuoti neurorinkodaros prielaidas ir galimybes.

**Straipsnio objektas:** neurorinkodara.

**Straipsnio tikslas:** ištirti neurorinkodaros teorinius aspektus.

**Straipsnio uždaviniai:**

1. Išnagrinėti neurorinkodaros sampratą.
2. Išanalizuoti neurorinkodaros principų taikymą.
3. Apžvelgti neurorinkodaros tyrimų metodus, išskiriant vadinamąjį akių sekimo (angl. *Eye Tracking*) metodą.

*Tracking*) metodą.

**Darbo metodai:** mokslinės literatūros analizė, lyginamoji analizė, sintezė, abstrahavimas.

## 1. NEURORINKODAROS SAMPRATA IR TEORINIAI ASPEKTAI

Daugelis mokslininkų pažymi neurorinkodarą, kaip vieną iš šio dešimtmečio aktualiausių mokslinių temų (Duch, 2007; Murphy, Illes, Reiner, 2008; Morin, 2011; Świda, Kabaja, 2013; Patrzalek, 2015). Be to, mokslinėje literatūroje yra pabrėžiama, kad neurorinkodara – tai naujoji praktinė sritis, leidžianti apibrėžti vartotojų elgesį taikant tam tikrus rinkodarinius stimulus (Murphy, Illes, Reiner, 2008; Chernova, Klepikov, 2012). Anot N. Lee (2007), neurorinkodara – tai neuroinformacinių sistemų teikiamos potencialios naudos taikymas. Mokslininkai M. Chernova, O. Klepikov (2012) neurorinkodarą apibūdina kaip rinkodarinių tyrimų sritį, kuri yra diferencijuota vartotojų elgsenos požiūriu. J. Świda, B. Kabaja (2013) pažymi, kad neurorinkodara – tai naujoji mokslų disciplina, tirianti smegenų funkcinius sugebėjimus atsižvelgiant į vartotojų elgesį. Mokslininkai E. Murphy, J. Illes, P. Reiner (2008), Ch. Morin (2011) ir W. Patrzalek (2015) pabrėžia, kad neurorinkodara – tai naujoji mokslų sritis, jungianti neurologijos žinias ir klasikinę rinkodaros teoriją. V. Dranseikos, E. Gefeno ir S. Noreikos (2009) teigimu, neurorinkodara – tai ekonomikos sritis, tirianti ryšius tarp vartotojų pasirinkimo ir jų smegenyse vykstančių procesų. Mokslinėje literatūroje pažymima, kad neurorinkodaros tyrimai yra atliekami taikant įvairių sričių, pavyzdžiui, neurologijos, biologijos, psichologijos, sociologijos, antropologijos, filosofijos, vadybos, etikos ir t. t. (Duch, 2007; Patrzalek, 2015), žinias.

Tačiau M. Chernova, O. Klepikov (2012) pabrėžia, kad neurorinkodaros pagrindinis tikslas – tikslios informacijos apie asmeninius vartotojų norus ir poreikius gavimas, nesiremiant subjektyviais duomenimis, gaunamais įprastomis rinkodaros priemonėmis. Tą pačią dilemą aptaria ir B. Wąsikowska (2015), išryškindama pagrindinius, neva užtikrinančius satisfakciją ir apibūdinančius vartotojų norus ir lūkesčius, rinkodarinių tyrimų įrankius, pavyzdžiui: anketiniai tyrimai, grupių diskusijos, skundų analizė ir įmonių nuostolių apskaičiavimas prarandant pasipiktinusių pirkėjų. V. Pruskaus (2011) požiūriu, šiuolaikiniai vartotojai vis dažniau pasirenka tą gėrį, kuris suteikia daugiausia malonumų, o kadangi žmonės ieško malonumų, yra svarbu nustatyti, kas jiems galėtų tai suteikti. Todėl neurorinkodara, pasitelkdama įvairių sričių mokslinius duomenis, tiria žmogaus elgesį, jo siekus, norus ir polinkius, detalai analizuoja individo įsitraukimo ir įtraukimo į vartojimą motyvus (Pruskus, 2011; Morin, 2011). Be to, vis daugiau mokslininkų tiria, kas lemia didžiąją dalį žmogaus pirkimo sprendimų (Duch, 2007; Pilelienė, 2012; Chernova, Klepikov, 2012; Wąsikowska, 2015). Anot W. Duch (2007) ir L. Pilelienės (2012), būtent šiuos sprendimus lemia sąmonė. Daugelis neurologijos mokslininkų pabrėžia, kad smegenyse vyksta daugybė „automatinių“ procesų, kurie savo prigimtimi yra ne tik greitesni už sąmoningus svarstymus, bet ir prasideda bei veikia asmeniui to nežinant, nejauciant ir nesistengiant (Duch, 2007; Morin, 2011; Pilelienė 2012). Taigi, žinant žmogaus smegenų veikimo principus, atsiranda galimybė pateikti informaciją vartotojui, orientuojantis, kad

šitie duomenis greičiausiu būdu patektų būtent į tą žmogaus smegenų dalį, kuri atskleis vartotojui produktų ar paslaugų pranašumus ir nukreips dėmesį nuo trūkumų (Duch, 2007; Pilelienė, 2012).

J. Świda, B. Kabaja (2013) pabrėžia, kad neurorinkodaros mokslas nesiremia potencialių pirkėjų pritraukimu (to tikimasi iš klasikinės rinkodaros ir reklamos), tačiau ieško atsakymo į klausimą, kas dedasi vartotojo galvoje, pasirenkant tam tikrą prekę, paslaugą ar prekės ženklą. Anot Ch. Morin (2011), neurorinkodara būtent šioje srityje atveria naujų metodologijų alternatyvas. L. Pilelienės (2012) teigimu, neurorinkodara suteikia galimybę naujai pažvelgti į rinką, atrasti naujus vartotojų rinkos segmentus, kurti sėkmingas pozicionavimo, kainodaros, komunikacijos ir paskirstymo strategijas. Be to, J. Świda ir B. Kabaja (2013) priduria, jog rinkodaros specialistai atlikdami neurorinkodaros tyrimus atranda galimybę geriau suprasti vartotoją, jo poreikius ir norus ir taip pat efektyviau patenkinti jų lūkesčius. L. Pilelienės (2012) teigimu, minėtos galimybės atsiveria analizuojant individo mąstymo ir sąmoninius – racionalius ir neracionalius – procesus. Be to, šie procesai yra jau seniai žinomi žmonijai ir verslo atstovams, tačiau pastebimas šios srities tyrimų trūkumas (Duch, 2007; Pilelienė, 2012; Wąsikowska, 2015; Patrzalek, 2015). E. Murphy, J. Illes, P. Reiner (2008), V. Dranseika, E. Gefenas ir S. Noreika (2009) pabrėžia šios temos aktualumo dilemą: ar tai yra sąžiningas būdas įgyti konkurencinį pranašumą.

J. Świda ir B. Kabaja (2013) požiūriu, neurorinkodaros požiūris įtikinti pirkėją pirkti, tai įtikinti jo smegenis padaryti tam tikrus veiksmus, vadinasi, susipažinti su vartotojo mąstymu, jo pasaulėžiūra ir neuroniniais procesais, vykstančiais jo smegenyse. Taip pat mokslininkai išskiria neurorinkodaros tikslą, kad tai nėra tikrai vartotojo pasaulinio modelio apibrėžimas, bet kartu ir žmogaus pasaulio suvokimo apibūdinimas, įvykus kontaktui su tam tikru prekės ženklu, ir jo suteikiama įtaka per komunikacijas ir pranešimus pasauliui (Duch, 2007; Świda, Kabaja, 2013; Wąsikowska, 2015). Kaip galutinį šios srities efektą J. Świda ir B. Kabaja (2013) išskiria geresnę komunikaciją tarp prekeivių, paslaugų teikėjų ir vartotojų: palankesnis rėmimo būdas, tinkamesnis prekės ženklas ir pakuotė, komunikacija su vartotojais ir tinkamo rinkos segmento pasirinkimas. Taigi, pabrėžiant neurorinkodaros aktualumą, svarbu apžvelgti ir jos istorines prielaidas.

### 1.1. NEURORINKODAROS ISTORIJA IR TAIKYMO PAVYZDŽIAI

Dabartiniuose mokslo tyrimuose terminas „neurorinkodara“ yra plačiai vartojamas, o pats procesas ir neurorinkodaros taikymas išsamiai analizuojamas ir svarstomas tarp mokslininkų (Duch, 2007; Murphy, Illes, Reiner, 2008; Morin, 2011; Świda, Kabaja, 2013; Patrzalek, 2015; Wąsikowska, 2015). Tačiau pati sąvoka, atsirado gana neseniai – 2002 metais. Be to, keli teoretikai pabrėžia, kad su jos atsiradimu negali būti siejamas joks konkretus mokslininkas (Duch, 2007; Morin, 2011). Neurorinkodaros atsiradimas siejamas su keliomis JAV įmonėmis (Brighthouse<sup>26</sup>, SalesBrain<sup>27</sup>), kurios pasiūlė taikyti neurorinkodaros tyrimus ir konsultavimo paslaugas įtraukiant naujausias kognityvinės neurologijos ir neuropsichologijos technologijas. Nors ir šios sritys tiria santykius tarp žmogaus smegenų ir pažinimo bei fiziologinių funkcijų, tačiau neurorinkodara skatina pažvelgti į vartotojo elgesį iš mąstymo ir sąmonės perspektyvos (Morin, 2011).

Tačiau daugelis mokslininkų (Duch, 2007; Patrzalek, 2015; Wąsikowska, 2015), kaip neurorinkodaros įkūrėją, mini Geraldą Zaltmaną, rinkodaros srities profesorį iš Harvardo Verslo mokyklos<sup>28</sup>. Jau 1998 m. buvo atlikti pirmieji vartotojų elgsenos eksperimentai, remiantis neurobiologijos tyrimų turima informacija, pagal smegenų tyrimų analizę atliekant magnetinį rezonansą (Patrzalek, 2015; Wąsikowska, 2015). Atlikęs tyrimus, Geraldas Zaltmanas padarė išvadą, kad net 95 % mąstymo procesų yra nesąmoningas pasirinkimas, o vartotojų poreikių iššifravimas reikalauja „rinkos suvokimo“, t. y. dinamiškos vartotojų minčių ir rinkodaros specialistų sąveikos (Patrzalek, 2015; Wąsikowska, 2015). Taip pat G. Zaltmanas pažymi, kad rinkdamasis konkrečią prekę vartotojas dažniausiai atlieka veiksmą remdamasis emocijomis, kurias priskiria tam tikram produktui ar paslaugai, o ne atsižvelgęs į kainą ar realią vertę (Patrzalek, 2015).

<sup>26</sup> Brighthouse – JAV įmonė, turinti šimtus parduotuvių, susijusi su namų baldų, interjero, elektroninių ir kompiuterinių prietaisų tiesioginiais pardavimais. Pagrindinė būstinė – Sirakūzai, Niujorko valstija, JAV.

<sup>27</sup> SalesBrain – pirmoji neurorinkodaros įmonė, teikianti pagalbą ir instrukcijas, radikalai keičiančias pardavimų pranešimus, „įtraukdama pirkimo mygtuką į pirkėjo smegenis“. Pagrindinė būstinė – San Franciskas, JAV.

<sup>28</sup> Angl. Harvard Business School.

Pirmosios neurorinkodaros tyrimus savo veikloje pritaikė šios įmonės: Coca-Cola, Procter & Gamble, General Motors, Kodak, Bank of America ir Nestle. Šiuo metu tokių tyrimų taktiką taip pat taiko Sony Bravia ir McDonald's (Patrzalek, 2015; Wąsikowska, 2015). Pažymėtina, kad pirmieji neurorinkodaros tyrimai, dar vadinami „Pepsio paradoksu“, buvo atlikti 2003 metais (Morin, 2011; Patrzalek, 2015; Wąsikowska, 2015). Taikant magnetinį rezonansą buvo fiksuojami vartotojų pasirinkimai tarp jiems nežinomų siūlomų gėrimų (Coca-Cola ir Pepsi). Atlikus „skonio“ tyrimą, daugelio respondentų buvo pasirinktas Pepsi. Tačiau, kai vartotojai buvo supažindinti su bandomojo gėrimo prekės ženklu, dauguma pasirinko Coca-Colą. Mokslininkai, stebėdami šio tyrimo metu smegenų veiklą, pastebėjo, kad skirtingais atvejais dirba skirtingos smegenų dalys. Kai vartotojai ragavo gėrimą žinodami prekę ženkla, dirbdavo ta smegenų dalis, kurį valdo mūsų dėmesį, kontroliuoja mūsų trumpalaikę atmintį ir yra atsakinga už planavimą, taigi kovoje tarp skonio ir prekės ženklo laimėjo prekės ženklas (Morin, 2011; Patrzalek, 2015; Wąsikowska, 2015). Šis tyrimas patvirtino G. Zaltmano ir kitų mokslininkų teiginį, kad daugelis vartotojų pasirinkimų nėra racionalus sprendimas (Morin, 2011; Pilelienė, 2012; Patrzalek, 2015, Wąsikowska, 2015). Be to, W. Patrzalek (2015) teigia, jog mūsų smegenys iš tikrųjų stebi ir įsimesna visiškai kitokią informaciją ir duomenis, nei mes įsivaizduojame.

Būtent šį teiginį patvirtina panašaus pobūdžio neurorinkodaros tyrimai, kurie buvo atlikti M. Lindstromo 2008 metais, taikant magnetinį rezonansą. Tyrimo objektas buvo žemas perspėjimų efektyvumas ant cigarečių pakelio apie tabako sukeltą žalą sveikatai. Taikant tradicinį anketinės apklausos būdą, respondentų buvo klausama, ar tokie perspėjimai skatina rūkalius mažiau rūkyti – dauguma atsakymų buvo teigiamų. Taikant magnetinį rezonansą buvo tiriamos rūkalių smegenys. Ekrane buvo rodomi įspėjimai apie rūkymo žalą iš įvairių cigarečių pakuočių, lengvos formos (tik užrašai) ir drastiški (sergančių plaučių ir galūnių ligomis vaizdai). Tačiau visais atvejais veikė smegenų branduolio (angl. *nucleus accumbens*) dalis, kuri ir yra atsakinga už malonumo pojūtį (Patrzalek, 2015). Taigi, taikant šiuos tyrimus, buvo atskleistas paradoksas, kad perspėjimai ne stabdė, o atvirkščiai, – skatino rūkalius užsirūkyti (Patrzalek, 2015). Šie tyrimai dar kartą parodo, kad klasikinės rinkodaros rinkos analizės būdai nėra visapusiškai tikslūs. Daugelis autorių pažymi, kad tai nėra melas iš vartotojų pusės, o tik patvirtinimas, jog mūsų smegenys visiškai kitaip priima ir generuoja informaciją, negu mes manome (Patrzalek, 2015 cituojant Pradeep, 2011).

W. Duch (2007) aprašo Hill (2007) atliktus tyrimus, kuriuose buvo analizuojamos automobilių gamintojų reklamos (buvo tiriamos vartotojų veido mikroekspresijos), kuriuose buvo atsiprašinėjama už neseniai padarytas klaidas ir jų kaltę. 80 % respondentų vertino tokią reklamą negatyviai. Tačiau verbaliniai komentarai nepatvirtino teiginio, kad tokia reklama sumažina įmonės prestižą (nusiminę vartotojai nenori parodyti nusiminimo, jog juos pavyko apgauti), tačiau jų reakcijos puikiai tai atskleidė. Tačiau buvo pastebėtos pozityvios verbalinės reakcijos į naujos funkcijos įtraukimą, tačiau buvo pastebimas emocinės išraiškos nenuoseklumas, 79 % vartotojų buvo nusiminę ir išgyveno dėl automobilio priežiūros komplikacijų.

Apibendrinus yra daroma išvada, kad neurorinkodaros taikymas plačiai analizuojamas ir svarstomas tarp mokslininkų. Atliekami tyrimai įrodo, kad daugelis vartotojų pasirinkimų nėra racionalus sprendimas, tačiau tai nėra melas iš vartotojų pusės, o tik patvirtinimas, kad mūsų smegenys visiškai kitaip priima ir generuoja informaciją, negu mes įsivaizduojame. Todėl, siekiant geriau suvokti vartotojo pasirinkimą ir jį skatinančius veiksnius, aktualu apžvelgti neurorinkodaros metodus, kuriais galima gauti atitinkamą informaciją.

## 2. NEURORINKODAROS EKSPERIMENTINIAI METODAI

Daugelis mokslininkų pabrėžia, kad yra daug būdų ištirti žmogaus fiziologines reakcijas į tam tikras prekes, paslaugas ar veiksnius (Duch, 2007; Morin, 2011; Świda, Kabaja, 2013; Wąsikowska, 2015). B. Wąsikowskos (2015) teigimu, įterpdami neuromokslų technikas tarp rinkodaros tyrimų, ekspertai bando tiksliau suprasti, kas dedasi potencialaus pirkėjo galvoje. Kaip tikslina J. Świda ir B. Kabaja (2013), neurorinkodara, taikydama neurotyrimų metodus, bando ištirti ir suvokti, kokie procesai veikia žmogaus smegenyse per tas milisekundes, kai jis pasirenkama pirkti vieną ar kitą produktą. Be to, mokslininkai

pažymi, kad atlikusios šiuos tyrimus įmonės turi galimybę sėkmingai paruošti rinkodarinę žinutę, komunikaciją ir strategiją (Duch, 2007; Morin, 2011; Świda, Kabaja, 2013; Wąsikowska, 2015).

Daugelis autorių pažymi, kad fMRI<sup>29</sup> ir EEG<sup>30</sup> yra populiariausi tyrimo būdai, taikomi neurorinkodaroje (Duch, 2007; Morin, 2011; Chernova, Klepikov, 2012; Świda ir Kabaja, 2013; Patrzalek, 2015; Wąsikowska, 2015). Tačiau keletas mokslininkų išskiria ir kitokius eksperimentinius būdus – MEG<sup>31</sup>, ET<sup>32</sup>, ODR<sup>33</sup>, ŠSD<sup>34</sup>, KD<sup>35</sup>, PET<sup>36</sup>, LVA<sup>37</sup> (Duch, 2007; Chernova, Klepikov, 2012, Patrzalek, 2015; Wąsikowska, 2015). Išsamiausiai ir daugiausia metodų aprašo W. Duch (2007), būtent šis mokslininkas labiausiai gilinasi į smegenų veikimo ir tyrimo principus, pabrėžia jų skirtumus, pranašumus ir trūkumus. Mokslininkas W. Duch (2007) pabrėžia, kaip veikia tam tikros smegenų dalys cituodamas FKF Applied research<sup>38</sup> įmonės, kuri savo veikloje naudoja fMRI skenerius, suformuluotas įžvalgas:

- smegenų branduolio (angl. *nucleus accumbens*) – atlygio sistema;
- smegenų žievė – troškuliai, turėjimas;
- priešcentrinis vingis – pozityvūs ryšiai;
- užcentrinis vingis – konfliktas;
- smilkininė skiltis – grėsmė, iššūkiai.

Be to, analizuojant naujesnę mokslinę literatūrą, yra pastebimas didesnis susidomėjimas vadinamuoju akių sekimo (angl. *Eye Tracking*) būdu (Patrzalek, 2015; Wąsikowska, 2015).

### 2.1. AKIŲ SEKIMO (angl. *EYE TRACKING*) BŪDAS

Mokslininkai, analizuodami akių sekimo (angl. *Eye Tracking*) metodą, vardija privalumus ir pabrėžia, kad jį taikant galima ištirti, kur potencialus vartotojas žiūri, į ką sutelkia dėmesį, o į ką visiškai neatkreipia dėmesio. Be to, vienas iš šio metodo privalumų – tai analizė, ar potencialus klientas pastebi mums rūpimus elementus (Świda, Kabaja, 2013; Wąsikowska, 2015). J. Świda ir B. Kabaja (2013) teigimu, tai tyrimo metodas, paremtas tam tikrų akių judesių stebėjimu, naudojant specialiai programuotas kameras, kurios registruoja mažiausią akies obuolio judesį, sąmoningus ir neapgalvotus, nesąmoningus judesius. Šis šiuolaikiškas tyrimo būdas atskleidžia ir leidžia stebėti, kaip žmonės pastebi ir reaguoja į tam tikras prekes ir produktus, reklamą, pakuotę, vaizdinius ekrane (Świda, Kabaja, 2013; Wąsikowska, 2015).

Anot J. Świda ir B. Kabaja (2013), šio metodo prioritetas – kuo mažesnė invazija ir tyrimo dalyvio apribojimų minimizacija, kad eksperimento sąlygos būtų artimos natūraliai situacijai ir aplinkai. Kaip pagrindinę šio metodo teigiamą prielaidą J. Świda, B. Kabaja (2013) ir B. Wąsikowska (2015) pažymi vartotojų žvilgsnio objektyvią analizę – tai reali analizė, o ne respondento subjektyvus atsakymas, verbalinės kalbos žinutė, kuri, kaip minėta, nėra visiškai tiksli. Šiuolaikinėje neurorinkodaroje naujausi įrenginiai pagrindžiami tarpusavyje sujungtų vaizdo kamerų sistema (Świda, Kabaja, 2013) (1 pav.).

<sup>29</sup> fMRI – (angl.) functional magnetic resonance imaging.

<sup>30</sup> EEG – (angl.) electroencephalography.

<sup>31</sup> MEG – (angl.) magnetoencephaly.

<sup>32</sup> ET – (angl.) eye tracking.

<sup>33</sup> ODR – odos elektrinis aktyvumas arba odos galvaninė reakcija.

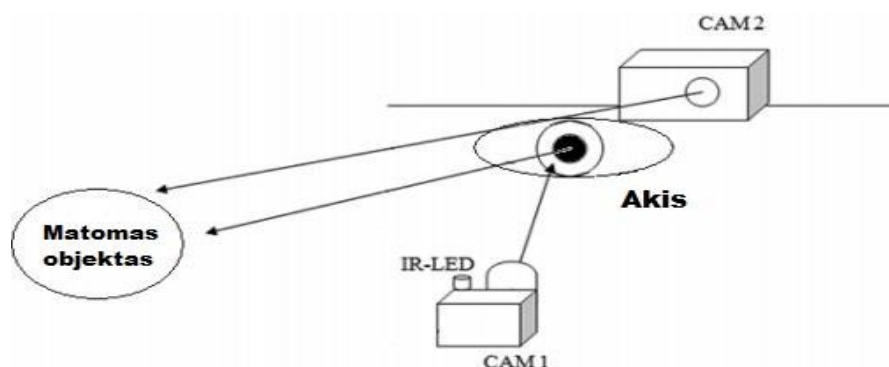
<sup>34</sup> ŠSD – širdies susitraukimų dažnis.

<sup>35</sup> KD – kvėpavimo dažnis.

<sup>36</sup> PET – (angl.) positron emission tomography.

<sup>37</sup> LVA – (angl.) layered voice analysis.

<sup>38</sup> Šaltinis: FKF Applied research. The Leader in NeuroMarketing. [interaktyvus]. [žiūrėta 2016 m. spalio 25 d.]. Prieiga per internetą: < <http://www.fkfappliedresearch.com/> > <http://www.fkfappliedresearch.com/>



Šaltinis: ŚWIDA, KABAJA (2013). Wykorzystywanie technik neuromarketingowych do badań opakowań produktów, p.28

### 1 pav. Akių sekimo (angl. Eye Tracking) veikimo schema

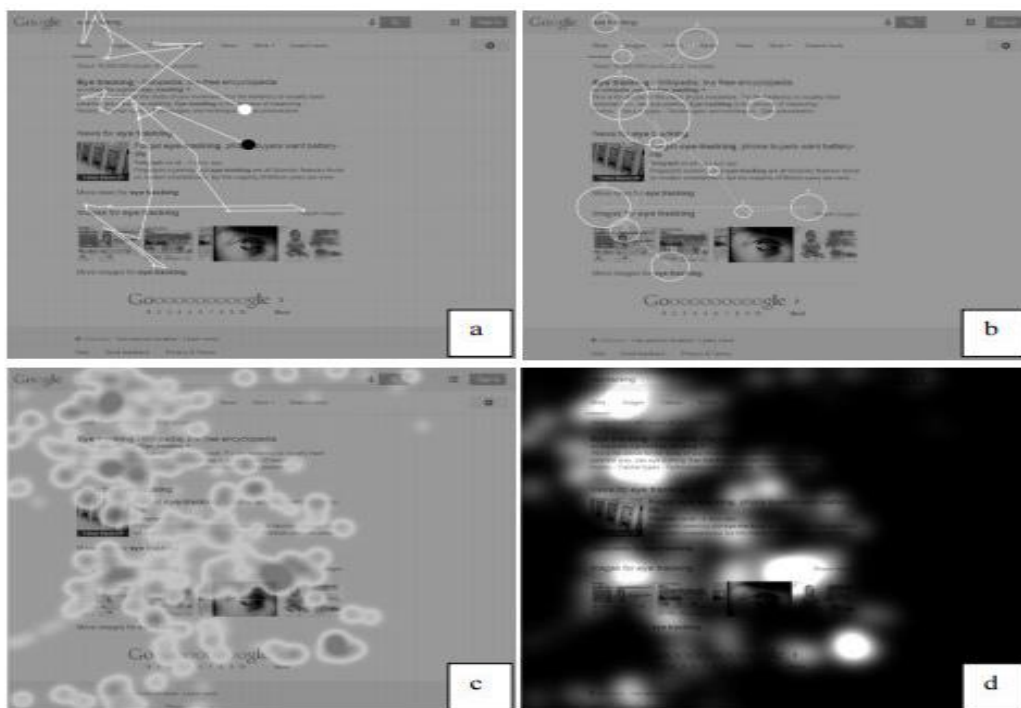
Pasak J. Świda ir B. Kabaja (2013), CAM1 yra nukreipta į tiriamojo akis, kuri fiksuoja akies obuolio judesius. O CAM2 kamera yra įrengta šalia tiriamojo akių ir nukreipta ta kryptimi, į kurią yra žiūrima. Eksperimento pradžia reikalauja įrenginių kalibravimo. Bandomo metu yra registruojamas vaizdas iš kameros CAM1, nukreiptos į tiriamojo akis, ir CAM2, kuri registruoja sritį, į kurią būtent tuo momentu žiūri tiriamasis. Naudojantis tam tikra kompiuterine programavimo įranga, duomenys iš abiejų kamerų yra tinkamai apdorojami. Akies obuolio judėjimo pokyčiai konvertuojami į koordinatas ir įrašomi naudojant CAM2 kamerą. Taip suteikiama galimybė dideliu tikslumu įžvelgti, į ką žiūri tuo momentu tiriamas asmuo. Labai dažnai kameroje CAM1, kuri registruoja tiriamojo akis, naudojami infraraudonieji spinduliai (IR), kurių tikslas sumažinti tiriamojo asmens diskomfortą ir išplėsti tiriamojo vizinį lauką (Świda, Kabaja, 2013; Wąsikowska, 2015). B. Wąsikowskos (2015) teigimu, IR spinduliai atsispindi nuo akies ir sukuria atspindžius, kurie fizikos moksle apibrėžiami kaip „Purkinjė atspindžiai“<sup>39</sup>, būtent šie atspindžiai ir yra gerai matomi akies obuolio refleksai, kuriuos seka CAM2.

B. Wąsikowskos (2015) teigimu, daugelis duomenų, analizuojamų akių sekimo (angl. *Eye Tracking*) metodu, tiriami kaip tam tikros užduoties atlikimo kontekstas, pvz., skaitymas, informacijos paieška ir t. t. Šių duomenų interpretacija daroma registruojant:

- fiksaciją – laikas, kada sutelkiamas regos dėmesys į tam tikrą vaizdą;
- mirksnius – žvilgsnio perkėlimas iš vieno dėmesio taško į kitą;
- buvimo laiką tam tikroje suinteresuotoje vietoje, kuris skaičiuojamas nuo sprendimo priėmimo ateiti į šią vietą;
- visą laiką arba vidurkį, praleistą individui stebint tam tikrą objekto dalis;
- pargrįžimų skaičius – grįžimas prie konkretaus elemento (pvz., įmonės logotipas, šūkis);
- išskirtinius vaizdo elementus, priklausomai nuo tiriamojo objekto.

B. Wąsikowska (2015) pažymi, kad šiuolaikinėje rinkoje galima įsigyti stacionarius ir mobilius akių sekimo (angl. *Eye Tracking*) įrankius. Stacionarieji įrankiai vizualiai nieko nesiskiria nuo paprasto monitoriaus, o mobilieji įrankiai dažniausiai yra uždedami ant galvos. Abiem atvejais akies obuolio judesių proceso matavimai jokia būdu neapriboja natūralaus tiriamojo elgesio, o tik suteikia precizišką informaciją, į kokį tašką vartotojas sutelkia dėmesį. Be to, B. Wąsikowska (2015), J. Świda ir B. Kabaja (2013) pastebi ir aprašo, kad dažnas akių sekimo metodo naudojimas yra pastebimas analizuojant ir rengiant interneto puslapių apžvalgą. B. Wąsikowska (2015) aprašo vieną iš tokių tyrimų, kuriame buvo naudojamas stacionarus *Mko Eye Tracker*, tai Hyperbeig įmonės tyrimas. Respondentų užduotis buvo apžvelgti interneto puslapį, kuris buvo rodomas ekrane 8 sekundes. Šio tyrimo tikslas buvo patikrinti, koku mastu tam tikri tinklapių elementai atkreipia respondentų dėmesį. Praėjus šiam laikui, buvo užduodamas klausimas, ar ką tik peržiūrėtas tinklapis suteikia galimybę užsiregistruoti. Tiriamieji turėjo tris atsakymų galimybes: taip, ne, nežinau. Tyrime dalyvavo 20 respondentų ir nė vienas iš jų nepastebėjo užsiregistravimo siūlomos galimybės. 2 pav. yra pateikiami tyrimo rezultatai, žvilgsnio skenavimo takai, fiksacijos – šilumos žemėlapiu forma.

<sup>39</sup> Purkinjė atspindžiai – ragenos atspindys.



**Šaltinis:** WAŚIKOWSKA, B. (2015) Zastosowanie technik neuronauki poznawczej w zarządzeniu marketingowym. p. 153.

**2 pav.** Akių sekimo (angl. *Eye Tracking*) tyrimo rezultatai: a) skenavimo takai; b) fiksacijos; c) šilumos žemėlapis; d) atvirkštinis šilumos žemėlapis

Pasak B. Waśikowskos (2015,) skenavimo takai (a) parodo pastebimų elementų eiliškumą, be to, papildomai leidžia nustatyti elementus, kurie atkreipia dėmesį nuo pagrindinio pranešimo. Rezultatai šilumos žemėlapiu kontekstu parodo sutelkto dėmesio rezultatus, kurie leidžia nustatyti, kurie elementai labiausiai pritraukė dėmesį, o į kuriuos respondentai visiškai nekreipė dėmesio. O atvirkštinės šilumos žemėlapis atskleidžia, kokius vaizdinius elementus pastebėjo tiriamieji.

Apibendrinama tyrimo rezultatus B. Waśikowska (2015) pabrėžia, kad respondentai didžiausią dėmesį sutelkė į vidurį ir kairę ekrano pusę, o registracijos galimybė buvo vaizduojama dešinės pusės viršutiniame kampe, į kurį nė vienas respondentas net nežvilgtelėjo. W. Duch (2007), J. Świda, B. Kabaja (2013), W. Patrzalek (2015) ir B. Waśikowskos (2015) vertinimu, būtent tokie neurorinkodaros tyrimai suteikia ypač tikslią informaciją dėl vartotojų pasirinkimo ir sprendimų.

## IŠVADOS

1. Remiantis moksline literatūra buvo išnagrinėti neurorinkodaros teoriniai aspektai ir yra daroma išvada, kad neurorinkodara – tai naujoji mokslų sritis, jungianti neurologijos, rinkodaros ir kitų mokslų sričių žinias, tirianti smegenų funkcinius sugebėjimus, atsižvelgiant į vartotojų elgesį, pasaulėžiūrą ir neuroninius procesus. Be to, daroma prielaida, kad neurorinkodara atveria naujas ir reikšmingas galimybes ir verslui, ir žmonijai apskritai.
2. Išnagrinėjus neurorinkodaros taikymo pavyzdžius ir sferas, galima teigti, kad neurorinkodaros taikymas plačiai analizuojamas ir svarstomas tarp mokslininkų. Atliekami tyrimai įrodo, kad daugelis vartotojų pasirinkimų nėra racionalus sprendimas, tačiau tai nėra melas iš vartotojų pusės, o patvirtinimas, kad mūsų smegenys visiškai kitaip priima ir generuoja informaciją, negu mes įsivaizduojame.
3. Remiantis moksline literatūra buvo išanalizuoti ir palyginti neurorinkodaros tyrimų metodai ir daroma išvada, kad populiariausi neurorinkodaros būdai – tai fMRI ir EEG, antroje pozicijoje – odos galvaninės reakcijos ir vadinamasis akių sekimo (angl. *Eye Tracking*) būdas. Taigi apibendrinant yra daroma prielaida, kad akių sekimo (angl. *Eye Tracking*) tyrimo metodas yra vienas iš tiksliausių duomenis teikiančių neurorinkodaros tyrimo metodų, kuris, registruodamas mažiausius akies obuolio judesius (ir sąmoningus, ir neapgalvotus), parodo objektyvią vartotojų žvilgsnio analizę. Be to, šis metodas suteikia tikrą ir tikslią informaciją apie vartotojo elgseną, o ne jo subjektyvius atsakymus.



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