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ARE SOCIAL ENTERPRISES READY TO HELP IN SOLVING SOCIETAL PROBLEMS? 
THE CASE OF LITHUANIA

Abstract

Purpose – The objective of the research is to determine the factors which interfere with the development of social enterprises in Lithuania. The article analyses the development of social enterprises and its tendencies, presents the management challenges which are common in the sector of social enterprises, also the article aims to show the organizational aspects of the sector, as well as the changes of the status of social enterprises in Lithuania are examined and the problems and prospects of further development are envisaged.

Design/methodology/approach – The methods of the research are the following: analysis of scientific literature and legal documents, and expert interview.

Findings – The research shows that implementation of management plays a significant role in successful development of social enterprises and the head managers or directors of the enterprises must comprehend that the core and essence of such and organization is the pursuance of its social objective.

Research limitations/implications – Managers of six Social Enterprises were interviewed. Further research on the field should be developed on a wider scale.

Practical implications – Factors which interfere with the development of social enterprises in Lithuania prevail are presented.

Originality/Value - The paper provides a review of the field based on primary data.

Keywords: social enterprise; management changes; hybrid organizations; Lithuania; societal progress

Research type: research paper

JEL classification: L33 – Comparison of Public and Private Enterprises and Nonprofit Institutions; Privatization; Contracting Out

L31 – Nonprofit Institutions; NGOs; Social Entrepreneurship
P4 – Other Economic Systems

Introduction

One of the key aims of the European strategy ‘Europe 2020’ (hereinafter – the Strategy) is to combat social exclusion (Commission Communication 2020, Europe, Brussels, 2010). According to the Strategy, the Commission aims to achieve the following in the scope of the European Union (hereinafter – EU): to reorganize the method of open coordination of matters on social exclusion and social protection into a platform for cooperation, peer review and exchange of positive practices, also to include a measure which shall promote the
responsibility of the members of public and private sectors to diminish social exclusion and to take concrete action, including targeted support from the EU structural funds (hereinafter – the ESF), to create and implement programs, which would promote innovation with regard to the most vulnerable social groups, combating discrimination (e.g. with regard to the disabled) and to help the socially challenged individuals to fulfill their potential. At the national level the Member states must foster a shared collective and individual responsibility in combating poverty and social exclusion; develop and implement specific means in order to solve issues of certain risk groups (e.g. single parents, elderly women, minorities, the Romany, disabled individuals, homeless persons etc.); fully exhaust their social security and pension systems to ensure adequate income support and access to health care services. The Social Business Initiative (October, 2011) establishes the role of social enterprises in the ‘Europe 2020’ strategy: the social enterprises contribute to the progressive development in response to the need social innovation that have not been implemented; they promote sustainable development taking into account the environmental impact and the long-term vision; people and social cohesion are of high importance to social enterprises as their main goal is to influence the economic and social transformation, which contributes to the objectives of the Strategy (European Commission, ‘Social entrepreneurship’). Hence the main objective of social businesses is to generate a significant impact on society, the environment and the local community. In addition, social enterprises are at the core of inclusive growth due to their emphasis on people and social cohesion: they create sustainable jobs for women, young people and the elderly.

The peculiarities of social enterprises in Lithuania were researched by Cepiene (2003), Malisauskaite (2003) and Hering (2003). The legal regulations were analyzed by Macernyte-Panomarioviene (2003, 2004). Moskvina and Okunveciute-Neverauskiene (2011) discussed the phenomenon of social businesses defined their goals, forms and the applied measures of integration via employment; Cizikiene and Cizikaite (2013, 2014) analyzed the possible directions of corporate development in Lithuania and the Baltic States. Social enterprises were also examined as being organizations which have the aim to achieve social goals in the manufacturing and service sectors (Borzaga and Defourny 2001; Borzaga and Galera 2009; Nyssens 2006, Kerlin 2006); Defourny and Nyssens (2008), by analyzing the social enterprises in Europe, have revealed their importance in implementing and developing various means of a policy of an active labor market; Peattie and Moorley (2008) identified the criteria of a social enterprise; and also the interferences of activities of social enterprises were defined (Borzaga 2001; Borzaga, Galera, Nogales 2008; Spear, Cornforth, Aiken 2009).

The aim of the research is to indicate peculiarities and to determine prospects of the social enterprises’ development in Lithuania. In order to achieve the goal the authors have set the following tasks of the research: to conduct an analysis of the various concepts of a social enterprise; to identify the obstacles arising in organizations while comparing the activities of organizations in EU and Lithuania; to find out the opinion of the managers of social enterprises regarding the interferences of further corporate development and organizing activities and to identify the development prospects of social enterprises.

Research methods are following: analysis of scientific literature and legal regulations, structured expert interview.
Peculiarities of social enterprises in Europe

According to the European Commission’s press release (2014), social economy accounts for 10 percent of gross domestic product in Europe. More than 11 million persons are employed in the social economy sphere, i.e. 4.5 percent of the total amount of working EU residents. Every fourth company (especially in such countries as France, Finland and Belgium) is a social enterprise.

Social economy includes the following forms of organization: cooperatives, mutual companies, associations, foundations, social enterprises and hybrid organizations (Arpinte, 2010). Social enterprises seek to solve social problems through business ventures. They combine the efficiency, innovation and resources of a traditional for-profit firm with the passion, values and mission of a not-for-profit organization (Battilana, Lee, Walker, & Dorsey, 2012).

Janelle A. Kerlin (2010) states that a social enterprise is defined as the use of nongovernmental, market-based approaches to address social issues, social enterprise often provides a ‘business’ source of revenue for many types of socially oriented organizations and activities. According to John Everett (2009) a social enterprise is ‘a financially sustainable organization in the third sector that creates and/or distributes needed goods and services in order to benefit a stated community of geography or interest, either through the goods and services themselves or through the financial surpluses achieved. They engage in activities of a commercial nature in order to produce social and community gain.’

An important step in the study of social enterprises in Europe is the research conducted by Defourny and Nyssens (2008) within the EMES over the last decade. In a working paper (WP No. 08/01) the authors observed that enterprises in Europe are adopting legal forms that have existed for a long time such as associations, cooperatives or limited liability companies. In countries where there is greater freedom in the sale of goods and services, they are most often associations. In countries where social economy structures have less freedom, social enterprises take the form of cooperatives or specific forms of business.

A broad typology of activities can be drawn on the basis of existing, if discrete, sectoral classifications (Wilkinson, 2014):

- Social and economic integration of the disadvantaged and excluded.
- Social services of general interest (such as long term care for the elderly and for people with disabilities; education and child care; employment and training services; social housing; healthcare and medical services.).
- Other public services such as community transport, maintenance of public spaces etc.
- Strengthening democracy, civil rights and digital participation.
- Environmental activities such as reducing emissions and waste, renewable energy.
- Practicing solidarity with developing countries.

According to Defourny, Nyssens (2012) the various conceptions of social enterprises are deeply rooted in the social, economic, political and cultural contexts in which such developments take place. The authors of the research note, that the European Research Network (hereinafter – EMES), the social policies of Member States and the EU at whole have done a relatively great influence into developing the concept of a social enterprise in Europe. In order to prevent possible misunderstandings arising from the complexity of the concept of social enterprise, EMES has developed a definition of a social enterprise which today is the main point of reference. The EMES criteria consist of four economic and five social criteria that define the ideal type of social enterprise. These criteria have served as support for a growing number of studies at the national level around Europe.
According to the researchers at EMES, a social enterprise has to meet certain criteria (2006):

- The goal of a social enterprise is to benefit the society. All of the social enterprises aim to include socially excluded and vulnerable persons into the labor market through training their professional and social skills and practical training in the workplace.
- A social enterprise has a limited distribution of earned profit. A social business commonly has a legal status of non-profit entities; however, part of the profitable social enterprises can properly distribute their profit. In social businesses the profit is usually invested in social integration projects.
- The decision-making process in social enterprises is not based on ownership. Decision-making involves the company's employees, tutors, volunteers, as well as social and professional integration program participants and clients of the enterprise. The aforementioned individuals who are interested in the enterprise's activities delegate their representatives in a democratic manner and they participate in the decision-making process.
- A social enterprise is engaged in economic activities. The most common business activities are related to production, manufacturing, trade or services offered on in the open market. However, the economic importance of the activities in different EU countries is different.
- Paid work is integrated in social enterprises. All of the social enterprises even if they have a wide use of voluntary work, have established paid workplaces; the proportions of paid and voluntary work may differ.
- A social enterprise is highly autonomous. Social enterprises in the EU are independent; therefore the managers and managing representatives adopt all the strategic and operational decisions regarding the company's strategic and practical activities.
- The activities of social enterprises experience economic risks. The financial well-being and survival of the company directly depends on the ability of its employees to work productively and achieve financial stability as a balance between income and expenditure. While operating in an open market these companies and their founders bear the economic risk of having a direct impact on their business.
- A social enterprise is a result of citizen initiative. Generally these enterprises are established by employees of the social sphere (social workers, managers of non-governmental organizations etc.), also by representatives and family members of target groups (e.g. parents of disabled children, people who have been unemployed for a long period of time etc.). The enterprises may as well be established on grounds of initiatives by legal entities, government authorities and local self-governing authorities.
- Participation in a social enterprise is open to the full participation of the members of target groups. The sector of social economy is based on principles of democratic participation in decision-making and empowering the target groups in their activities.

EU creates the favorable conditions for developing social enterprises at a national level, by regulating the European legislative, institutional, financial framework and by elaborating specific programs (Sandu, Haines 2014).

At the end of 2011 the European Commission enacted a communication act in which the Social Business Initiative was described and it was meant for the development of social business in EU Member states. In the aforementioned communication act, the Commission set a definition of a social enterprise as ‘an operator in the social economy whose main objective is to have a social impact rather than make a profit for their owners or shareholders. It operates by providing goods and services for the market in an entrepreneurial and innovative fashion and uses its profits primarily to achieve social objectives. It is managed in an open and
responsible manner and, in particular, involves employees, consumers and stakeholders affected by its commercial activities' (European Commission, 2011). It must be noted that the Commission expressed its position that the concepts of a social enterprise and a social business are equivalent. The Commission emphasized that a social enterprise tends to reinvest into the implementation of a social mission. The EU's (2011) definition of social business focuses on the social aim, the use of market orientation and the management by social entrepreneurs. According to Orhei, Vinke, Nandram (2014) the novelty of this view is the switch from the individual to the organization. Moreover, it allows more freedom to create organizations that do not fit the traditional social economy types (e.g. associations, foundations, cooperatives). Also, EU refers to three reference models of social enterprise – British, Italian and French (European Commission, 2013: 34-36, C. Sandu, R. Haines, 2014).

The British model

The British model of a social enterprise is an excellent example in both the international and EU level (Social Enterprise UK, 2011). The heads and managers of UK social enterprises aim to achieve social or environmental goals with their activities, yet they do not prioritize the financial profit of the business. The social enterprise has a clear mission in the national level which is defined in relevant reports: ‘social enterprises do not exist to create shareholder value: they exist to create social or environmental value. They create that value through trading activities and generating wealth in their communities and like any other business, they seek to make a profit. The differences come in why they trade, how they work and what they do with that profit – for social enterprises, social impact is what success looks like.’ (Social Enterprise UK, 2011: 21) The government of Great Britain has declared its support for establishing social enterprises and especially for the Social Enterprise Unit within the Department of Trade and Industry in 2001. In 2011, the Department of Business, Innovation and Skills elaborated a guide for legal forms of social enterprises, which highlights the following categories: Category 1 – Unincorporated forms and Category 2 – Incorporated forms (Department of Business, Innovation and Skills, 2011:2). In addition to the aforementioned legal forms, the following may also be asserted: social firm, development trust, community enterprise, cooperative, credit union (Price, 2009: 16).

The peculiarity of a British model social enterprise is that the enterprise has great support and trust in the Government and it also retains specific intervention domains in the following matters (Department of Business, Innovation and Skills, 2002:24): (i) providing public services and reforming the sector – the aim is to provide with better public services, combining the activities of social services of achieving social goals, aiming for social purposes and attention of clients, applying innovation, ensuring and providing a variety and high quality of services; (ii) social and financial inclusion – to provide employment and training opportunities for marginalized people.

The Italian model

Social enterprises in Italy are considered to be an example of the cooperative social movement. This model has been approved in Europe and in a global scale in 1991 by adopting the Law 318/1991 on social cooperatives (Spear, Bidet, 2003:11). The law on social cooperatives (cooperativa sociale) defines this type of organization by its mission of following the general interests of community by promoting social and humanity integration through a) health and educational services management (social cooperative A and B types) and b)
accomplish agricultural, industrial, commercial or services activities with the aim of work integration of disadvantaged people (social cooperative B type)' (Law 381/1991 on social cooperatives art. 1(1))

The social cooperative movement in Italy greatly influences the development tendencies of the third sector in Europe. Roger Spear considers the fact that the existence of Italian social cooperatives represents the source of inspiration in creating EMES European Research Network, but also in the general discussion in the third sector (Spear, 2008:58).

The experience and successful activity of the Italian social cooperatives determines the position of public organizations in establishing the third sector, while improving the legal regulations of social enterprises. In 2005 the Law 118/2005 on social enterprises discipline was adopted in Italy, which defined a social enterprise as a private nonprofit organization with the main activity based on economical production or exchange of goods and services of social utility, for achieving the general interest (Law 118/2005 on social enterprises, art. 1(1)).

Social enterprises play a significant role in the country's social policy, also in the development of social responsibility and fostering the public spirit and a civil society in general. The main areas of activity of the Italian social enterprises are the health, medical assistance and as emergent domains environment, trade, information and communications technology and tourism (Carrera Ferrari, Meneguzzo, 2008: 14-15).

The French model

The third sector in France is developed through the aspect of social economy. The social economy represents a modality of undergoing activities by legal private persons democratically governed by all stakeholders in accomplishing the enterprise's mission and in applying management principles for maintaining or developing the enterprise's activity (Legislative project on social economy, 2013, art. 1 (I)).

The phenomenon of social enterprise development in France was first discussed in Europe in 1999. Two distinct types of organizations were identified: social enterprises which facilitate the integration into the labor market and social enterprises which provide with social services (OCDE, 1999:25). The legislative project on social and solidarity economy in 2013 mentions the organizations that can produce and provide goods and services: cooperatives, mutual, foundations and associations and commercial societies for social utility (Legislative project on social economy, 2013, art. 1 (II)). Bernard Eme and Laurent Gardino (2003) have established a study on the integration into the labor market regarding France, in order to highlight the diversity of the organizational forms that a association can take in practice: adaptation centre to active life (centre d'adaptation à la vie active), integration enterprise (entreprises d'insertion), intermediary association (l'association intermediaire), neighborhood association (regie de quartier), temporary work integration enterprise (entreprise de travail temporaire), employers group for integration and qualification (groupe d'employeurs pour l'insertion et la qualification), long-term integration enterprise (Eme, Gardin, 2003).

Recognition through public policies has been and still is a key channel for the diffusion of various models of social enterprise throughout Europe (Defourny, Nyssens 2010). As is demonstrated in below in the table (Table 1), it may be asserted that the majority of EU member states have already implemented various political initiatives and strategies, yet there is still a significant amount of states left which are striving to solve the question at hand. The main reason for the aforementioned problem is the lack of financial funding for the projects.
In countries such as Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Malta, Slovakia and Romania it is very difficult to get financial support from the state. Usually the political initiatives are funded from the EU structural funds. Yet in countries such as Belgium, Denmark, the United Kingdom or France the establishment and development of social enterprises is promoted by the state and usually entrepreneurs and emerging businesses are granted with financial state-aid (Wilkinson 2014).

### Table 1. Public policy initiatives to support the establishment of social enterprises and to develop their activities in the EU

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<th>Country</th>
<th>Political initiative</th>
<th>State</th>
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<td>National concept of social economy and action plan 2014-2015</td>
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<tr>
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<td></td>
</tr>
<tr>
<td>United Kingdom</td>
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<td>Implemented</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>The action plan on the development of a solidar economy 2011</td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>Legislation on the social and solidarity economy 2014</td>
<td>In progress of being developed and implemented</td>
</tr>
<tr>
<td>Sweden</td>
<td>The National Action Plan for employment integration in social enterprises 2010</td>
<td></td>
</tr>
<tr>
<td>Lithuania</td>
<td>The Concept of social enterprises 2015</td>
<td></td>
</tr>
<tr>
<td>Ireland</td>
<td>In progress of being developed and implemented</td>
<td></td>
</tr>
<tr>
<td>Croatia</td>
<td>Project: The strategy on developing the Social Entrepreneurship in Croatia 2014-2020</td>
<td></td>
</tr>
<tr>
<td>Latvia</td>
<td>In progress of being developed and implemented</td>
<td></td>
</tr>
<tr>
<td>Poland</td>
<td>Project: The National program of social business development</td>
<td></td>
</tr>
<tr>
<td>Malta</td>
<td>In progress of being developed and implemented</td>
<td></td>
</tr>
<tr>
<td>Romania</td>
<td>Project: Legal regulations on Social economy</td>
<td></td>
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The definition and concept of a social enterprise differs from country to country since it depends on the different social and economic policies applied in each one of them. For instance, Borzaga (2012) classifies social enterprises by their degree of institutionalization. The legal form varies from country to country where social enterprises are legally and politically recognized: cooperatives (various types exist in Italy, Great Britain and Sweden), associations, mutual societies, foundations and other forms of these entities are implemented in Belgium and France. The diversity of corporate services provided and the variety of the manufacturing market is relatively vast. The enterprises may provide services to the vulnerable part of the society or, in cases where social and professional integration is being implemented, they may employ individuals, who are disadvantaged due to social exclusion, or due to the lack of professional qualification and (or) social matters.

In countries where social enterprises are considered being uncommon, they usually develop from non-profit organizations to a model of a social enterprise, yet they do not have a clearly expressed legal status (e.g. in Romania, Bulgaria, Serbia, Slovakia). The key aims of the social enterprises established in the aforementioned countries are to fight social exclusion and to provide social services. Even though social enterprises are mentioned in political discourses, they are not officially and legally approved, therefore the issue is not integrated into the public policy and the legal environment does not allow supporting the development of such social enterprises.

There is another group of countries where a relatively great amount of social initiatives may be found despite unfavorable institutional and legal conditions and in essence their activities contribute to improving the well-being of local communities. However, the social
initiatives that the aforementioned organizations display are not identified as activities of a social enterprise hence they are not recognized at the national level thus there have been no credible investigation of these enterprises conducted.

A social enterprise is closely related to the 'Europe 2020' strategy and is utterly beneficial for the society. By supporting and advocating social enterprises we can make the best use of their growth potential and capacity to create social value. The EESRK agrees with the European Commission's initiated policy and action plan to promote and foster social enterprises in Europe and also emphasizes that it is crucial to fully implement the plan at both the EU and national level. Looking from the beginning of establishing and developing social enterprises it is evident that their development differed significantly due to the political and economical state of the Member State it was established in. Despite the official declarations of governments and international authorities, such enterprises still have only limited and uncertain space for growth (Nyssens, 2006). The need to furnish more solid arguments to legitimate the role of social enterprises has induced several researchers to examine the conditions under which such organizations may be better suited to and more competitive in, responding to the needs of contemporary society (Defourny and Nyssens, 2008). It is worth saying that the amount of social enterprises in Lithuania is rather small comparing to other countries. In 2014 Lithuania had 67 841 small and medium-size enterprises, yet in the same year only 141 legal persons attained the status of a social enterprise. In our analysis we shall distinguish the factors which act as barriers interfering successful development of social enterprises in Lithuania.

Challenges of a social enterprise

Borzaga (2001) identified the following challenges of social enterprise development:

- The creation of an eligible legal base for social enterprises.
- The quality of produce and services. In their activities the social enterprises must invest a sufficient amount of resources to improve the quality of the services provided for customers, i.e. high standards apply to social enterprises, because they must compete in the market together with companies of the public sectors, business entities and non-profit organizations. The profit that the social enterprises receive could be used for social purposes, yet the companies must appoint their earnings into improving the quality of services and products in the market.
- Skills and workplaces. While operating, social enterprises must pay a significant amount of attention to human resources and to improving the qualification of their employees. Social enterprises must engage in training their workers and volunteers, thus requiring additional resources. One of the ways to attract voluntary training is to cooperate with local and state universities.
- Management experts. A social enterprise is a new form of organization therefore new management and control ideas are essential. The crucial element that ensures good management is heads of the organization which must either improve their management skills or transfer one's managerial functions to management professionals.
- Financing. Since a social enterprise is novel form of organizing work, it encounters problems getting loans from banks and funds because they are not that well-known in the market.
- Cooperation. The networking between social enterprises are not sufficiently developed nor on the local neither on the global scale. Knowledge and experience from other countries could greatly benefit in attracting new business opportunities.
- Management structure. Social enterprises must attract interested parties with different opinions and approached yet they must maintain a democratic management of the organization.

Borzaga, Galera, Nogales (2008) distinguish internal and external barriers for the development of social enterprises. The main external reasons are the following: 1) political barriers as an overestimation of the role of the market in replacing the state-political underestimation of social enterprises as economic and welfare actors (mainly advocacy role) and corruption; 2) environmental barriers – a mismatch between growing demand for services and existing or developing social policies, high dependency of social enterprises upon
donors; 3) institutional barrier which results in an unfavorable legal environment, lack of appropriate legislation on contracting-out procedures and low decentralization at the administrative level. The main internal interferences are: 1) managerial barriers, i.e. lack of a labor supply possessing the managerial and professional skills needed to manage social enterprises; 2) co-ordination or competition-linked barriers, meaning a lack of coordination among social enterprises and third sector organizations; 3) cultural barriers as insufficient awareness of the relevance of social enterprises as service providers. Specific inner barriers: 1) cultural barriers as a lack of a ‘social enterprise’ culture in society as a whole; 2) institutional barriers – lack of adequate legal frameworks, bureaucratic barriers imposed by public bodies; 3) competition-linked barriers, i.e. competition by the informal economy (when institutional and legal barriers jeopardize the formalization of economic entities). Specific external barriers are the following: 1) cultural barriers as the lack of a social enterprise culture within social enterprises themselves; 2) managerial barrier – lack of managerial skills and competences of social enterprise leaders, prevalence of an authoritative managerial approach difficulties in finding financial resources; 3) co-ordination/competition-linked barriers, meaning a lack of a system of second-level social enterprises (for organizational, technical and financial support).

Despite the diversity of types of social enterprises Spear, Cornforth and Aiken (2009) distinguish the following general management challenges:

- ‘Attracting potential employees with the rights skills and experience in managing a company. The aforementioned authors note that a great issue in small organizations and social enterprises of the disabled persons is to find qualified employees especially those having skills in financial, business and strategic planning.
- Choosing the right legal and management structure. While starting their businesses the social enterprises must adopt the right legal status and a management structure by consulting lawyers and specialists in management with regard to their field of operation in the future, because a poor choice may lead to additional financial and time costs.
- Managing external stakeholder interests. Governance structures differ in the extent to which they involve single or multiple stakeholders. Many social enterprises are choosing to adopt multi-stakeholder structures. Multi-stakeholder boards have the potential benefit of bringing together the interests of different groups and generating greater social capital. They may also have potential costs. They are potentially more reconciling diverse interests of stakeholders can have large transaction costs.
- Managing membership. Poses similar challenges for social enterprise as other voluntary associations. An active membership can be a source of considerable strength, providing support, resources and candidates for board membership and helping to hold board members to account.
- The power of boards to control management. Management and control are the key elements to the success of an organization; therefore the social enterprise must hire a professional management expert. One option for developing the capability of the board to properly scrutinize managements’ proposals is to bring in non-executive directors from outside the organization’s membership who have the necessary business experience.
- Balancing of social and financial goals. Social enterprises have to manage the potential tension between social and business goals. There is a constant danger that some social enterprises become too focused on business goals at the expense of social goals or conversely too focused on social goals at the expense of building a strong business. There was concern that some third sector organizations that had moved into developing new social enterprise activity were not well equipped to recognize and manage new entrepreneurial risks. Many organizations and their boards had to cope with a move from a grants culture to contracting regimes, but transforming cultures and practices to match remained a challenge for many’.

Wilkinson noted that social enterprises in Europe encounter a great variety of barriers and interferences and even though they may be different, there are some that are common:

- Poor understanding of the concept of a social enterprise. Poor understanding of the concept of a ‘social enterprise’ was cited as a key barrier by the majority of stakeholders across Europe. Recognition of the term ‘social enterprise’ by policy makers, public servants, the general public, investors, partners and prospective customers was seen as low. There are
also issues around perception. For example, in some countries the public associates the term 'social enterprise' with the activities of charities or work integration of disadvantaged and disabled people and not entrepreneurship. Certain negative stereotypes also affect the broader perceptions of social enterprises. Misunderstandings and lack of awareness negatively affects social enterprises growth and financing prospects and is also a pivotal factor in preventing development of relations with customers.

- Lack of specialist business development services and support such as incubators, mentoring and training schemes, investment readiness support etc. Most social enterprise support needs are similar to those of mainstream businesses, but at the same time social enterprises have specific features (their dual missions, business models, target groups, sectors of activity etc.) that create complex needs which require diversified and, at times, tailored solutions. In most countries, specialist support for social enterprises is largely absent and, where it exists, it is limited and fragmented.
- Lack of supportive legislative frameworks. The lack of legal recognition of social enterprise in many countries makes it difficult for authorities to design and target specialist support or fiscal incentives for social enterprises;
- Access to markets. Inadequate use of social clauses, current public procurement practices (large contract sizes, excessive pre-qualification requirements, etc.), payment delays all reportedly make it difficult for social enterprises to effectively compete in public procurement markets;
- Access to finance. Conventional investors and lenders do not typically understand the dual purpose and hybrid business models of social enterprises. However, specialist investors, financial intermediaries and instruments are currently non-existent or under-developed in most European countries. Consequently, social enterprises find it difficult to access finance from external sources;
- Absence of common mechanisms for measuring and demonstrating impact. Currently measuring or reporting of social impact by social enterprise in most countries is very limited (except where mandatory). Consequentially, information is lacking on the societal impact of these organizations and awareness of 'the difference that social enterprise makes'. Impacts need to be demonstrated for the benefit of funders and investors and to comply with public procurement rules. Development of common social impact measurement systems could result in more transparency, accountability, better recognition of the impact of social enterprises and hence more interest, from private investors and wider public

Summarizing the aforementioned barriers for the development of social enterprises, the following may be distinguished:

- Lack of a legal basis. The definition of the identity of social enterprise by law permits to design and implement specific public policies for social enterprises, including measures under tax and public procurement law, also to protect social enterprise’s stakeholders, avoid abuses of the social enterprise brand and allows to set clearly the boundaries between social enterprise and other concepts.
- Attracting employees and volunteers with the eight set of skills and experience. Social enterprises face a problem of finding right competent employees, especially one who have experience and skills in financial, business and strategic planning, managing skills.
- Lack of management skills and competences in social enterprises. The head managers ensure a stable and effective management scheme, which must constantly improve their competences or transfer their functions to a management expert.
- Balancing of social and financial goals. Social enterprises have to manage the potential tension between social and business goals. There is a constant danger that some social enterprises become too focused on business goals at the expense of social goals or conversely.
- Access to finance. Conventional investors and lenders do not typically understand the dual purpose and hybrid business models of social enterprises. However, specialist investors, financial intermediaries and instruments are currently non-existent or under-developed in most European countries. Consequently, social enterprises find it difficult to access finance from external sources.
- Cooperation and networks. The communication between social enterprises is not sufficiently developed on nor the local neither the global scale. Knowledge and experience
from other countries could greatly benefit in attracting new business opportunities, planning
business ventures or finding employees.

- Lack of umbrellaorganizations (horizontal co-operation between social enterprises
and umbrellaorganizations). Establishing umbrellaorganizations can help social
entrepreneurs with training, writing a business plan and finding investments so problems
regarding these fields are solvable.

**Features and performance of social enterprises in Lithuania**

By the end of 2014, 141 social enterprises were active and operating in Lithuania, 66 of
which were social enterprises of disabled persons (see Fig. 1). During 2014 eight legal
persons were granted the legal status of a social enterprise. During the aforementioned period
2 635 persons from various target groups were employed in social enterprises. During 2014, a
total of 5 413 individuals from target groups were employed in social enterprises (279
persons of 25 and under percent of working capacity, 2 362 persons of 30-40 percent of
working capacity, 2 281 individuals had a 45-55 working capacity, 4 persons which had an
average level of disability, 13 individuals who have minor special needs, 434 persons of
moderate special needs, 19 persons of the total employed had a significant level of special
needs and 3 persons were long-term unemployed). A total of 139 social enterprises were
supported and funded during the period. In 2014, 10 social enterprises were rewarded in the
National Responsible Business Awards for their achievements during 2013 in order to
promote responsible business practices and corporate social responsibility. From 2005 until
2015 the social enterprises operating in Lithuania helped to maintain jobs for over 5 thousand
individuals of target groups, 771 workplaces were established and 147 workplaces were
established for disabled persons (source: Lietuvos Darbo Birza [Lithuanian Labor Exchange]).
Summarizing the data it may be asserted that the development of social enterprises is rather
successful and beneficial as involving socially vulnerable individuals and creating new job
places.

![Figure 1. Social enterprises in Lithuania](image-url)
Social enterprises receive state-aid from their local territorial labor exchange agencies in accordance with the Act of March 9, 2012 approved by the Edicts of the Minister of Social Security and Labor in No. A1-135. In each case where state-aid is granted the local territorial labor exchange and the social enterprise sign an agreement regarding the disbursement and utilization procedures of the grant.

The alteration of the Law on Social Enterprises No. XI-1771 (Valstybes Zinios 2011, No. 155-7352) was intended to increase the total number of individuals employed in social enterprises and to particularly increase the number of employed persons which have a level of severe disability. The usual legal form of such an enterprise In Lithuania is a private limited company, which receives state aid in form of subsidies for employing persons from certain target groups. During 2014 a total of 53 800 thousand Litas (equivalent of 15 581,56 thousand Euros) of state aid was distributed, of which 19 200 thousand Litas (5 560,7 thousand Euros) were from the state budget, 34 600 thousand Litas (10 020,85 thousand Euros) were funded by the ESF: subsidies for work pay and state social insurance contributions – 51 900 thousand Litas (15 031,28 thousand Euros) (of which 17 600 thousand Litas or 5 097,31 thousand Euros were from the state budget); 1 300 thousand Litas (376 thousand Euros) from the state budget were distributed as subsidies for creating new workplaces for the disabled and for providing the necessary equipment, the subsidy for maintaining workplaces for disabled persons and adapting and (or) maintaining their essential working tools – 20,4 thousand Litas (5,91 thousand Euros) from the state budget; subsidies for additional administrative costs – 2,8 thousand Litas (0,81 thousand Euros); subsidies for transportation costs – 173,6 thousand Litas (50,28 thousand Euros), 303,8 thousand Litas (87,986 thousand Euros) of subsidies for the expenses of an assistant (sign language interpreter) (of which 74,4 thousand Litas or 21,55 thousand Euros were from the state budget) (according to the report of the Republic of Lithuania Ministry of social security and labor of 2014). After analyzing the allocation of the state budget it may was found that while distributing the subsidies to the social enterprises, they are particularly oriented into financially supporting the persons which belong to special target groups, because the cannot fully compete in the labor market, therefore the social reintegration and the return of these persons into the labor market necessitates the creation of particular conditions.

The Law on Social Enterprises highlights the essential features of a social enterprise, which are the following: employment of persons from target groups and creation of an action and measure plan for establishing the enterprise, promoting social integration and developing social skills of persons from target groups. A social enterprise is an entity or its branch (hereinafter shall be also referred to as ‘the legal entity’) which has received its legal status based on and according to the Law on Social Enterprises and is established in the territory of the Republic of Lithuania or in another country which is a member of the European Economic Area (EEA), when all of the following requirements are met: the number of employees from target groups, which are mentioned in article 4 of the Law on Social Enterprises, represent no less than 40 percent of the annual average number of employees in the entity and there must be at least 4 persons from the aforementioned target groups employed at once. The percentage of target group members employed in a social enterprise are calculated from the average number of employees according to the rules set by the Government of the Republic of Lithuania or by its authorized institution; the establishment documents of the legal entity must showcase the activities of the entity, which are associated with the social integration, recruitment and employment of the individuals from target groups and with the development of their social skills; a legal entity or its branch which was primarily established in an EEA.
member state must present the Lithuanian authorities with relevant documents proving their entitlement to engage in social enterprise activities in their country of origin; prove, that the legal entity does not participate in activities which are mentioned in a specific list of non-eligible activities published by the Government or its authorized institutions, or prove that the profit which the entity earns does not exceed 20 percent of the total amount of income, also one must prove that they do not engage in temporary employment activities.

A social enterprise for persons with disabilities is a legal entity which was established and which received its legal status under the Law of Social Enterprises and meets the following criteria: the employees, which belong to a target group of persons with disabilities, represent no less that 50 percent of the total average annual amount of employees working in the entity. Persons which disabilities which have a high or average level of disability and a working capacity of no more than 40 percent, or high or average level of special needs, represent no less than 40 percent of the average annual amount of listed employees working in the enterprise and the amount of employees which belong to a target group (as defined under article 4 paragraph 1 part 1 of the Law of Social Enterprises) is no less than 4. The individuals with disabilities are included in the annual average amount of the total employees working in the enterprise as long as they work no less than 80 hours per month.

Recruitment and employment in social enterprises is promoted and funded under the Law on Social Enterprises as long as the entities employ persons from the following target groups: individuals with disabilities, with high, average or light level of disability, or persons with disabilities with a determined working capacity of no more than 55 percent or a high, average or light level of special needs; people with long-term unemployment, which have an unemployment duration from registration at the local labor exchange is more than two years; persons who have no more than five years left until retirement age and if their unemployment duration counting from registration at the local labor exchange is longer than one year; a child’s mother (adoptive mother) or father (adoptive father), the child’s guardian or caregiver, which are raising their underage (younger than 18 years old) child (adopted child) with a disability alone, or another person who is in charge of a sick or disabled family member, whom the Disability and Work Capacity Assessment Office of the ministry of Social Security and Labor has granted permanent special nursing or permanent attendance (assistance) to and if the duration of the persons unemployment counting from the registration at the level labor exchange is longer than six months; individuals who have recently returned from imprisonment facilities, when the imprisonment term was longer than six months and they have registered in local labor exchange offices no more than after six months from returning from imprisonment facilities and their duration of being registered is no less than six months; persons who are addicted to narcotic drugs, psychotropic and (or) other intoxicating substances after finishing their psychological and social (or) vocational rehabilitation programs, if the duration of unemployment counting from registration at the local labor exchange is longer than six months.

It is to be noted that the social enterprise sector in Lithuania is the only one out of all the Baltic States which is regulated under a separate law, which defines the term of a social enterprise, its rights and obligations, also distinguishes it from other business entities, the determination of its legal status and the order of obtaining the status, rules on granting state aid (Cizikiene and Cizikaite, 2014). The Latvian legislation does not include the term 'social enterprise'. Therefore a diversity of forms of social enterprises exists in reality. Social enterprises in Latvia are identified by the following main criteria: having a social goal, ability to generate income, sustainable development, engagement of socially target groups, reinvestment of profit, operation of an organization in harmony with the environment.
Regarding Estonia, there is no specific law on social enterprises; the majority of social enterprises in Estonia are formed as not-for-profit organizations, a social enterprise is defined in a broad way, not solely focusing on those social enterprises that create employment opportunities.

It is difficult to find a legal form that would cater to the needs of all social enterprises. In ‘Social Entrepreneurship Forum Riga 2013’ Carlo Borzaga mentioned that having a law on social enterprise in particular is compulsory, because, in his words, ‘organizational law is essential to distinguish social enterprises from business organizations. It recognizes the specificity of social enterprise and contributes to giving them a clear, precise and easy to convey identity. The definition of the identity of social enterprise by law permits to: design and implement specific public policies for social enterprises, including measures under tax and public procurement law; protect social enterprise’s stakeholders; avoid abuses of the social enterprise brand; set clearly the boundaries between social enterprise and other concepts’\(^1\). In many other European countries (Finland, Poland, Slovakia and Sweden, also Lithuania), the concept of social enterprises which is adopted in national laws and/or policy documents, narrowly focuses on work integration social enterprises. This restricted definition excludes enterprises pursuing societal missions such as provision of social and educational services, environment and well-being for all. It is to be noted that the Lithuanian Law on Social Enterprises also legitimizes a social enterprise as a model of a social business, where the entity with a legal status of a social enterprise facilitates recruitment and employment of individuals from various target groups, which have lost their professional or general working capacity, are economically inactive, or cannot participate in the labor market on equal terms as the others. The aforementioned legal entities are granted with financial state aid and social insurance subsidies.

Given the above, other social business models remain unregulated by law and thus restricting their development, whereas state aid is granted to only one of the possible models of social businesses, on 3 April 2015 the Concept of Social Business was approved by the Edict No. 4-207 of the Minister of Economy (hereinafter – also the Edict and the Edict on the Concept of Social Business). Even though the preparatory state of the Edict took relatively long, Lithuania was first of the Baltic States to approve such a concept of a social business. The aforementioned Edict presents with a definition of social business which preconditions to evaluate the differences between social businesses in general and the definition of the already legitimized social enterprises, which is prescribed by the Law on Social Enterprises. Social business is a business model, according to which social innovation is implemented, while applying the market mechanisms, also the pursuit of profit is linked with social goals and priorities, the company’s performance is based on provisions on socially responsible business and public-private partnership. Social business coverts three key aspects: entrepreneurship (permanent commercial activity), social (pursuit of social objectives) and management (limited distribution of profit, transparent management).

Social business in Lithuania is a novel form of activity, which shall be also granted with support funds, therefore a discussion rises to what type of development tendencies await the ‘work integration’ model social enterprises in Lithuania, because so far the financial aid has been granted only to ensure and support the interests of socially vulnerable groups, allowing individuals from the aforementioned groups to actively integrate into the labor market and to reduce their social isolation. It should be noted that the reintegration of these persons back into permanent economic and commercial activities causes certain difficulties. By indicating the issues of social enterprises, Dobele (2012) points out that individuals with disabilities and

\(^1\) http://sefriga.lv/about/
persons with low skills in the field are slower and less productive in the working process, hence it becomes difficult to ensure a sustainable and uninterrupted working process of the enterprise, also additional financing and time are necessary for employee training, temporary replacements of the employees, therefore employers are not sufficiently interested in employing persons with severe health problems.

Millan Diaz Foncea, Carmen Marcuelo (2012) refers to the lack of autonomy of social enterprises as a possible threat and deficiency as the enterprise is dependent on government subsidies and (or) other organization and this may lead to impair the pursuit of social objectives. The aforementioned researchers also note that the social enterprise funding sources must vary, yet according to Wilkinson (2014) social enterprises find it difficult to access finance from external sources. Furthermore, due to low productivity, the profit of a social enterprise is often small, hence at this point state aid is crucial for enterprises which recruit and employ persons from socially vulnerable target groups, especially the disabled since they face particularly difficulties in competing in the labor market without additional support. Creating a new legal framework for the concept of social business the state should provide an additional protection system for enterprises relating to persons with disabilities by granting sufficient state aid, due to the experience of Lithuanian social enterprises (the Development of Employment Possibilities for the Disabled, 2012) shows that financial support significantly help to ensure successful integration of persons with disabilities.

Research data analysis

Research methodology: the research was carried in March 2015, using an expert interview with six social enterprise directors. The selected respondents led the companies for at least three years. The aim of the research is to reveal the experts' views on the challenges and problems of social enterprises. The respondents manage the companies and thus the nature of their work and experience allows them to give their opinion about the peculiarities of social enterprises.

The prepared questionnaire consisted of a group of inter-related questions regarding corporate social organization of activities and interferences, to which the respondents had to answer. In order to answer the survey, particular expertise, knowledge and experience are necessary and the selected directors and managers of enterprises had all of the mentioned qualities due to them having a significant amount of rationally treated information, extensive knowledge and experience, they base their decision-making on intuition and insight.

The questionnaire was delivered to the experts via e-mail, also additional interaction with the experts was conducted via information technology and telecommunications means for further clarification of the research questions. All of the informants were introduced with the aim of the research and the further usage of it and questions of confidentiality were discussed as well. The data was gathered up to a point where the theoretical 'saturation' was reached and opinions started to repeat. Aiming to maintain the confidentiality of the participants, the location of the social enterprise shall not be disclosed. The data obtained during the interviews was analyzed by applying the content analysis method.

The analysis of the experts' opinions revealed, what sort of interferences and problems prevail in social enterprises, how the activities of social enterprises should be organized and improved in Lithuania for the social integration process to be more flexible and effective.

The study respondents recognized that it is difficult for a company to obtain a legal status of a social enterprise and to maintain it: 'it is difficult, one must seriously consider and plan the enterprise's activities, the need of people and who will be able to work', 'it is difficult
because of the constantly changing legislation', ‘the future of the enterprise is not assured'. The informants also emphasized that ‘the most difficult task is to ensure the number of persons with disabilities', ‘the obligations under law are too strict'. During the research it was important to find out whether the state support is sufficient. Accordingly the experts stressed the following factors: ‘if it weren’t for the state dotations, other, healthier people would take over the positions as they work faster, more expeditiously and are more reliable, they get less sick', ‘the state's intention to regulate the requirements regarding groups more strictly is aggravating the situation', ‘work experience shows that persons with a 45-55 percent working capacity are capable of working more', ‘0-25 percent struggle to work during the foreseen working hours', ‘the persons [from target groups] are only capable of working merely a couple of hours per day, where the state requires that the persons would work at least half of the working hours in order to receive subsidies'. However all of the informants agree on the following statements: ‘all in all it is good that there is support', ‘without the support and help the activities of the enterprises would be at huge risk', ‘it is difficult for the new enterprises to engage in new activities', ‘it seems to me that the provisions and legislation on enterprise activities are getting more strict', ‘the requirements for employees are too big'.

Considering the support received from the local labor exchange it has been found that only the support under the Law on Social Enterprises was distributed: ‘we receive work pay subsidies under the law', ‘once we conducted a project on establishing a new workplace', ‘we basically cannot get anything more under the law', ‘we receive only what is foreseen in the law'. The experts stated that the help from the Lithuanian Labor Exchange (the LLE) would be utterly helpful and the following steps or conditions would be necessary: ‘that the LLE would have a specific IT database for the persons of the target groups', ‘the employees of the LLE state that they do not have sufficient information about the actual amount of persons with disabilities searching for jobs', ‘the LLE could help out more often with regard to preparing projects and drafts'.

The participants were required to answer questions regarding problems with finding employees which would like to work in a social enterprise. The experts distinguished the two following factors: where the activities of the enterprises take place and what is the offered working position. Usually social enterprises organize their activities in various places, e.g. the administration may be in the city, whereas the manufacturing may take place in a small town in the outskirts. According to the respondents: ‘it is much easier to find persons with disabilities in small towns because there are more of them there and they are capable of working a more technical job; with regard to the workplaces in the administration subdivisions or positions of specialists it is really difficult to find the required employees', ‘it is difficult to find the suitable specialists', ‘if the position is important and persons of a particular competence can meet the requirement, finding the eligible employees is a difficult problem'. It may be said, that finding a suitable employee is relatively difficult: usually the disabled are passive because social benefit payments fulfill their basic needs, therefore locating a competent and qualified employee is hard. It should be noted that motivation of the employees is a crucial factor determining the effectiveness and efficiency of the organization, hence it is important to know, what types of motivation may be applied while organizing the operation of an enterprise. The experts specified the following measures: ‘under the law we annually conduct an integration plan according to which we organize our work', ‘we have special events, Christmas gatherings, training activities', ‘we organize get-togethers for everyone', ‘we try to communicate more and get to know the situation of the family'. All the experts agree the effectiveness of organizing labor of the persons with disabilities depend on the motivational position and interest of the managers and directors of the facilities. However, the employers often do not have sufficient
additional funds to invest into motivating the employees. It is important to note that the respondents emphasized the motive to work of their employees: ‘work for the people is like a window into the world’, ‘we do not have enough staff turnovers’, ‘people often come to us and ask for jobs because their friends or relatives work here’. In conclusion it may be stated that the greatest motivation for employees working in social enterprises is to feel as a full-fledged member of society and to have additional paid work.

Evaluating the ability of employers to manage relations in the organization it was found that all of the experts view themselves and the employees as being integral, because, especially when working in social enterprises, the managers and directors realize that without the help and comprehension from their employees, they cannot reach the social objectives and operate their facilities. Taking into consideration that the employees are usually individuals with certain health issues, the managers and directors agree and state, that unconventional measures of management must be applied: ‘I need to comprehend the health problems of my employees’, ‘I cannot allow myself to boss the employees around and to speak insistently with them, because some have mental disabilities’, ‘I can see what mood they come to work in’, ‘I accept my employees to who they are, I cannot change them’, ‘my employee who has medical problems often is not capable of doing his work or performing his duties in high quality, then I ask him to work at a slower pace since we cannot sell corrupt items’, ‘intuition and insight are often necessary for my work’, ‘I take responsibility not only for my own life, but also for the lives of my employees and their relatives’. Summarizing the responses, all managers and directors of social enterprises rely on servant leadership while managing their facilities as fostering the productivity and satisfaction in work of their employees. However, the experts also stated, that: ‘I needed additional time to comprehend the special needs of my employees, hence particular training before establishing or starting to work in a social enterprise would be beneficial’, ‘I had no idea how to work with these people since I came to work in the enterprise from a business entity’, ‘I need to earn the key management principles in order to make the right decision but I do not have the time for that’, ‘in the beginning I hired a manager but eventually he requested a bigger salary and I could not afford that’, ‘I understand that a manager is necessary in my facility yet the problem is lack of finances’. It may be stated that only the qualities, knowledge and skills of the directors of the social enterprises are not sufficient. For the director of an enterprise to be fully capable, certain training is necessary both for the employer and the employees taking into consideration the peculiarities of the entity.

Assessing the support of the local governments for social entities it has been found that the support is limited, hence all the experts approached the offered support in a skeptical manner: ‘we only get support if we specifically ask for it’, ‘the offered us premises for our facility yet they were unsuitable for our activities’, ‘we were offered premises on a basis of a usage agreement’, ‘there are no guarantees that the development of our activities is going to be permitted’, ‘the local was unsuitable’. It can be said that the role of local governments should be more active in promoting social enterprise development in the region.

It was found that the community’s approach to the development of social enterprises is positive: ‘we have a positive public image’, ‘the society welcomes us’, ‘social enterprises are promoted, respected for that they integrate individuals with disabilities’, ‘we are manufacturers therefore our end user values our company by purchasing our produce’. Judging from the results of the research, the community views the social enterprises rather positively. However, all the experts stated that there are certain gaps in communication with the society: ‘the communication is fairly low’, ‘we barely cooperate’, ‘currently – not so much, some time ago we used to support the city’s associations, elderly homes, however now we are not capable of doing that anymore’.
The respondents were asked to distinguish the main and routine problems they face during their activities. The following issues were singled out: ‘recruitment and employment’, ‘there is no IT database where the suitable employees that meet the requirements under law would be easily found’, ‘there is no unanimous and solid register or database’, ‘there is a greater risk by employing an individual with medical disabilities’, ‘the persons employed really do get ill more often’, ‘there are many ‘sick days’ during the year’, ‘the sicknesses of employees interfere with the processes in the enterprises as it makes it much more difficult to expeditiously plan the working schedules’, ‘we have to constantly search for replacements’.

In assessing the future prospects of social enterprises in Lithuania it was found that business opportunities are quite limited: ‘it is difficult to determine the prospects of development’, ‘they really want to shut us down recently’, ‘it is not always possible for associations to help us’, ‘we do not have the time to represent social enterprises in the ministries every time’. Even so, the experts emphasize that without the state’s support there would be no future for social enterprises: ‘if it weren’t for the subsidies, the employment level of these persons [from target groups] would be significantly lower’, ‘the state helps to integrate people with medical issues’, ‘the requirements for the specific number of employee should be reduced so there would be more social enterprises established’. The experts also presented the following proposals for the possible advantages for social enterprises: ‘if a facility only has a few employees with disabilities, I would leave the possibility for it to be rewarded the subsidies for work pay, however I would withhold the right not to pay income taxes’, ‘if the enterprise meets the requirement of having 50-60 percent of employees with disabilities in general – I would grant it the right not to pay income tax’, ‘more ways to involve people with social or medical issues must be found’, ‘if an individual has the necessary education, understands his or her work well, a disability cannot be held as a obstacle to work’, ‘people with disabilities must be offered to learn a specialization which is of high demand in the labor market’, ‘the motivation of employees to work must be fostered’.

Conclusions

The European Research Network, EU citizens themselves and the social policies of EU Member States had a great influence over the development of the concept of social enterprises in Europe. Despite the general definition of a social enterprise which was presented by the European Commission in 2011, there are a lot of significant differences among the EU countries to what is the concept of a social enterprise: diverse models of social enterprises, various legal forms, distinct legal definitions of social enterprises etc.

In conclusion, there is a lot of support from the Lithuania state-level regarding financial support, tax exemptions, legal framework and specific policy framework for social enterprises. The most common challenges that the social enterprises face are the following: finding employees with the suitable qualification, assuring the continuity of the work process, organizing training for employees.

The research shows that even though social enterprises receive a relatively enough attention from the state, however management of a social enterprise has a significant impact on the development of the enterprises, due to the leaders role is crucial in obtaining the set social goals. Nonetheless, taking into consideration the peculiarities of social enterprises, only the personal qualities, knowledge and skills of a leader are not sufficient to reach the aims. In order for the leader to be truly competent, they must undergo specific training; the respondents of the research particularly emphasized the lack of managerial skills.
The aforementioned issues may be solved by an umbrella-organization. Establishing umbrella-organizations would help social entrepreneurs with their training, preparing business plans and solving other relevant matters.

It was also found that social enterprises would prefer to more actively participate in cooperating with local communities and government – this would result in raising public awareness regarding social enterprises and the issues they may encounter.

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EFFECTS OF INNOVATIONS: 
HOW TO MEASURE AND MANAGE THEM?

Abstract

Purpose – The purpose of this paper is to present a state of the art of innovations and their effectiveness measurement as it pertains to the Czech and foreign professional literature. The objective of the article rests in the summary and presentation of results of a literature analysis of the relationship between innovations and effectiveness measurement.

Design/methodology/approach – The paper is based on literature analysis of effectiveness measurement, as well as, innovation management. The system approach, analysis, comparison and synthesis are applied in this paper.

Findings – The main conclusion of the paper rests in comparison of pros and cons of various metrics for innovation effectiveness measurement. Then, author discuss creation of matrix including both financial and non-financial metrics in order to measure innovation effectiveness sufficiently. Balanced Scorecard – one of the most popular and powerful concepts – is presented.

Research limitations/implications – This paper is limited by several factors. First, the study is grounded in a theoretical secondary data analysis. Second, the measurement of innovation effectiveness was, is and always will be encumbered by a certain inaccuracy associated with the creative nature of this process. What is detrimental is the fundamental resistance of creative workers to any form of measurement and standardization of their work.

Practical implications – The study provides knowledge on innovation effectiveness measurement on firm micro level. It discuss both important evidence for financial and non-financial metrics.

Originality/Value – The paper provides a review of the field based on secondary data. Therefore, the paper is supposed to motivate researchers to conduct more large scale studies in the area of innovation effectiveness measurement in different business sector and areas.

Keywords: innovation effect; financial metric; non-financial metric; balanced scorecard

Research type: literature review and viewpoint

JEL classification:
M21 – Business Economics
O32 – Management of Technological Innovation and R&D
P47 – Performance and Prospects

Introduction

Innovation is generally considered as a major cause of enterprise’s growth. In addition, the examination of the impact of innovation on enterprise’s survival has shown that the ability to innovate increases survival probabilities for all enterprises across most manufacturing sectors (Cefis and Ciccarelli, 2005).

Therefore, measuring effects and contribution to value of innovation has become a fundamental concern for managers and executives in the last decades (Kerssen-van Drongelen and Bilderbeek, 1999). According to the abundance of books and publications that have been written over the past few years on the topic of measuring enterprise effectiveness (see Neely 2005 for an overview of the state of the art of effectiveness measurement and

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further research perspectives), it might seem that we know everything we need. In last years, many studies have been written aimed at discussing the issue and suggesting possible approaches to the effectiveness measurement, innovation and R&D management literature (e.g. Bassani et al. 2010; Chiessa and Frattini, 2009; Merschmann and Thonemann, 2011). Theoretical and empirical researchers analysed effectiveness measurement systems about “continuous change”, innovations (Boston Consulting Group, 2006) or relations between innovation and effectiveness measurement systems implementation, with general and sector focuses (e.g. Fiorentino, 2010). Despite this, many companies do not have this issue supported and it is often taken for granted and considered resolved within the scope of the existing information systems (Žižlavský, 2015).

Efficient and complex measurement systems are essential and crucial to the success of innovations. It is not enough just to pick a few areas, use random indicators and expect to obtain the information needed for managing innovations. It ends up mostly in a situation where the competent managers are overwhelmed with analysis results that they do not use in their work or that they use in a completely inefficient manner. This approach is time-consuming and draining on productivity. It can also lead to inconsistent analyses and incorrect measures (Davila et al. 2013; Skarzynski and Gibson, 2008).

A fundamental rule of innovation management says: “Linking strategy to innovation measurement with a few sharp metrics provides a clear picture of performance” (Davilla et. al., 2013, p. 146). Creating a few sharp metrics is not to be confused with fitting them all on one page. The font is so small that it is barely readable. Such a one-page measurement system is useless and probably harmful. In this case, quantity is the enemy of quality. Too many measures can be more of a distraction than a help. Having five simple measures linked to the strategy and innovation business model is better than having twenty to thirty measures; even if the additional measures provide a more complete picture, they will overwhelm the decision makers. When companies don’t know what to measure, then often measure too much (Ittner and Larcker, 2003).

**Research methodology**

The scientific aim of the paper is to gain knowledge and analyze the present status of innovative activities and their effectiveness measurement as it pertains to the Czech and foreign professional literature published by leading experts in both the past and in recent years. The objective of the article rests in the summary and presentation of results of a literature analysis of the relationship between innovative activities and effectiveness measurement. In addition, the paper is also important in terms of innovation management, which is a field of science, and also of related disciplines, specifically strategic management.

The paper is based on literature analysis of effectiveness measurement, as well as, innovation management. The system approach, analysis, comparison and synthesis are applied in this paper. Analysis is used as a method of acquiring new knowledge and for its interpretation. When processing secondary data, the secondary analysis method was used. The professional literature, and particularly foreign resources, provided a source of secondary data. Comparison is used when various pros and cons of various approaches to innovation effectiveness measurement are compared.
Research results and findings

Effects of innovations

According to Valenta (1969), the third link in the chain “activity – innovation – effects” represents a change in behaviour of a production organism resulting from a complex innovative action. Activity is a creative human function resulting in invention. Invention is the thought foundation for innovation, and bringing innovation into business reality brings a resulting effect. The latter consists of any change in input, output and stock of funds and any change in their mutual proportions. The resulting effect directly depends on the originality of the initial activity. The whole process is controlled and regulated by feedback between the effect and the activity and between the firm’s environment and the firm as such, which restores the balance of the whole system (Vlček, 2002).

Valenta (1969) considers the following to be elementary effects:

- Changes in input values (such as costs over a period of time).
- Changes in output values (sales over a period of time).
- Changes in the stock of funds (financial balance at a point in time – average).

From these elementary effects Valenta constructs complex effects which are as follows:

- Effects towards the extensity of development of the production organism, measured directly by the change in an output value.
- Effects towards productivity of operation of the production organism, measured as the difference between the degree of movement of output values and the degree of movement of input values.
- Effects towards utilisation, or effectiveness of the stock of funds, measured as the difference between the degree of movement of an input value/degree of movement of an output value and the degree of movement of the stock of funds (Valenta, 1969; 2001).

In order to establish innovation success, it is first necessary to decide at what level the process will take place. Innovation effects can be measured at various levels.

At the macro level, there is a wide range of known and sophisticated means of measuring innovation potential and effectiveness such as, in Europe, the Innovation Union Scoreboard (EC, 2014a) and the Regional Innovation Scoreboard (EC, 2014b); in the Czech Republic, innovation surveys are regularly performed by the Czech Statistical Office (www.czso.cz), as well as the Centre of Economic Studies at the University of Economics and Management (CES, 2013). The macro level has been the subject of abundant research and studies in the past decades (e.g. Archibugi and Pianta, 1994; Brusoni et al., 2006; Casper and van Waarden, 2005; Cefis and Ciccarelli, 2005; Gourlay and Seaton, 2004; Malerba and Orsenigo, 1999; MEADOW, 2010; OECD, 2007; OECD, 2010a; OECD, 2010b; Patel and Pavitt, 1994); therefore, the present thesis does not study this level and bases its considerations on the findings of the aforementioned studies.

There are several reasons for analysing the link between innovation and effectiveness at the firm level. First, it is companies that innovate, not countries or industries. Second, aggregate analysis hides a lot of heterogeneity. Companies’ effectiveness and characteristics differ both across countries and within industries; countries’ innovation systems are characterised by mixed patterns of innovation strategies which have an impact on companies’ behaviour; and companies may adopt multiple paths to innovation, including non-technological ones. The advantage of micro-level analysis is that it attempts to model the channels through which specific companies’ knowledge assets or specific knowledge channels
can have an impact on these companies' productivity and therefore shed light on the role that innovation inputs, outputs and policies play in economic performance (OECD, 2009).

Furthermore, measurement of innovation effectiveness on firm level can be classified into three different sub-levels:

- Company level, innovation management effectiveness: This includes innovation culture, innovation competences/learning, innovation structure and innovation strategy.
- Multi-project level, innovation portfolio effectiveness: Portfolio management is defined as a dynamic decision process in which a company's active innovation projects are constantly updated and revised.
- Single-project level, innovation project effectiveness: A project represents a team-based approach to execute innovation processes. Practice shows that projects are the most common and important organisational form to put innovations into action. Each innovation project needs to be considered as a planning and controlling object (Schentler et al., 2010).

Every innovation should be implemented in practice as an investment innovation project, i.e. one is aimed at enhancing the technical and utility values of products or increasing the effectiveness of the production and service provision processes, or introducing advanced management methods, delivering major changes in the organisational structure or changes in the entrepreneur's strategic orientation or other non-technical innovations strengthening the entrepreneur’s long-term competitiveness and sustainable growth. Therefore, this paper primarily deals with determining the success of individual innovation projects, i.e. firm micro level.

After setting innovation effectiveness measurement level we can continue by selecting the kind of criteria to be used in the process. Hauschildt & Salomo (2007) recommend measuring the value of innovation using three kinds of criteria: (i) technical, (ii) economic and (iii) other (see Fig. 1). The evaluation of innovations at the above three levels is a prerequisite for identifying the overall success of an innovation.

With respect to technical criteria, the success of an innovation is assessed using specific technical parameters such as energy performance, fuel consumption, air resistance, etc. These
parameters can be called direct characteristics. In addition to these, it is also possible to look for indirect characteristics in technical criteria. These include, for example, experience gained, transfer of know-how, identification of weaknesses, improved co-operation in the research team, etc. The degree to which such indirect effects can actually help increase effectiveness becomes apparent only when addressing subsequent projects.

Economic effects can also be divided into direct and indirect. For direct effects, the priority is to establish the amount of profit or expenditure on covering fixed costs and profits, or gross margin. As a rule, it is either impossible to specify these factors in the initial phases of the innovation process or the figure is extremely unreliable. In these cases, it is possible to look for e.g. turnover or market share indicators, assuming that a product received positively by the market is likely to be effective also in terms of profitability. This approach is aimed at ascertaining whether bringing innovations into practice will result in lower costs thanks to improved quality, reduced quantity of defective products, etc. Another example of a direct effect is impact on competition in a situation where, for example, an innovation enables the enterprise to obtain a license, which increases competitors’ costs or reduces their market share and sales.

Other effects of innovation include those which follow from the elimination of physically demanding and monotonous work, increased share of creative work, improved health and hygiene in workplaces, better work safety, etc. Innovations have a highly significant impact on the environment. For individuals, they can include scientific recognition, receiving prestigious awards, increased publication activity, etc.

Measurement of innovation effects

How is innovation effectiveness measured in empirical studies? A first approach is to use a number of implemented innovation. This is the essential and most simple metric. However, there is a distinct difference in the significance of individual innovation. The benefits of the ability to bring incremental innovations to the market can entail greater benefits for the competitive ability of enterprises than the ability to be the first on the market with radically new technologies. Both radical and incremental innovation deserve appropriate attention within innovation management control.

A second approach is to use bibliometric indicators, which are based on the number of articles published by the unit of analysis being studied (Verbeek et al., 2002). However, appropriate measures have been developed in order to evaluate the quality, impact, and importance of the publications (Martin 1996), to distinguish between short-term and long-term impact (Moed et al., 1985), and compare actual and expected impact of publication. From the nature of these metrics follows their implementation only in R&D organization, universities etc. Therefore, bibliometric measures, which rely on the information contained in research publications have significantly hampered their diffusion among practitioners.

A third approach is to use technometric patent data to measure “inventive output” indirectly. This involves patents, which a company registered itself, not patents (generally license) that acquired or purchased from another subject for the purpose of commercial uses – such approach represents input metrics (Acs et al., 2002). However, not all innovations are protected by patents and many patents are never translated into commercially viable products. There also is a great heterogeneity in company’s propensity to patent. Furthermore, the propensity to patent may vary across sectors or company size classes. The relative importance of patenting as a barrier to imitation differs both among sectors and among types of innovation. From this point of view, patent data can be considered as an inadequate
indicator of innovation output, especially, if not all of the innovations are patented and patents may have very different economic impacts. In addition, they do not allow for an adequate measurement of two innovation effectiveness dimensions – cost and time, which are critical in today’s competitive environments (Chiesa and Frattini, 2009).

Next approach is to use R&D expenditures (e.g. Chan et al., 1990; Doukas and Switzer, 1992; Woolridge and Snow, 1992). R&D, while it is typically well codified, is a measure of input to the innovation process rather than output. Also data on R&D expenditures have several disadvantages. First, companies, in particular small firms may generate technological advances outside formal R&D laboratories which R&D expenditures may not capture (OECD, 2009). Second, there is evidence that small-scale and often informal R&D tends to be undercounted in R&D surveys and that the quantity of R&D measured in small companies may be quite sensitive to questionnaire design (Kleinknecht et al., 1991); third, R&D covers a wide variety of activities, ranging from – far from the market – basic research, via applied research up to development. Fourth, companies can use their innovative resources with varying degrees of efficiency (Brouwer and Kleinknecht, 1996). Fifth, simply spending money does not automatically lead to a market success. Therefore, the validity of this figure as a key effectiveness indicator on innovation should be questioned. Efficient usage of R&D expenditures can only be achieved by reducing failure rate (e.g. Berth, 1993; Thomaschewski and Tarlatt, 2010).

Last, but not least approach is to follow economic metrics. All kinds of innovations are implemented on the basis of projects where the expected effectiveness is evaluated based on forecasts of the volume of sales and profits at an assumed price and costs. With these data available, which, however, are very difficult to determine, the firm can carry out an evaluation using any proven method. The evaluation of innovation effectiveness must be based on reality where sales generated from products that have been subject to innovations are separated from overall sales. This makes it possible to determine the proportion of innovated products of sales, the amount of operating profit and to look at its trends. Such simply and demonstrably obtained facts are difficult to question and can be used to counter any irrational demands of innovators.

Unlike most of the previous studies on innovation, we do not measure innovation through R&D expenditures, patents or implemented innovations. There are several well-known limitations for these measurement (Brouwer and Kleinknecht, 1996; Griliches, 1990; Patel and Pavitt, 1993). Importance of other dimensions of innovation, such as managerial or organisational change, investment in design or skills, and management of innovation process itself, is increasingly acknowledge (OECD, 2009). Therefore, the paper deals with economic indicators.

**Discussion**

**Financial metrics**

Innovation means improvement and progress compared to a reference value. These improvements and advances refer to following dimensions: content, intensity, time and space. This dimensioning necessarily leads to individual focal- points of interest. Producer and customer interests, economic and ecological interests and different philosophies of life define and interface where a consensus on success can hardly be depicted (Hauschildt and Salomo, 2007). However, measuring success in an economic sense needs a tight definition.
Options for expressing innovation process effectiveness by economic indicators have also been investigated by Valenta (1969, 2001). In his last publication, he concludes that better economic performance of a company, i.e., in general terms, a change in the company's economic behaviour towards its environment, is not only a result of innovative measures in manufacturing area, but also a product of non-manufacturing innovations expressed in managing and servicing activities, and is also intensively influenced by the external environment, e.g. by changes in the price of purchased components and investment goods, as well as by the company's success or otherwise in achieving the volumes and prices ideally counted on in the sale of its products when the decision on a particular innovation project was taken. Valenta's theory was further elaborated by Vlček (2008) into a value innovation, the effect of which is a growth, or rather, a maximization of value for the customer with a simultaneous growth in the value of the company.

Methods for economic analysis are currently the most diffused methods for evaluation of innovation projects (e.g. Ryan, Ryan 2002). Although the existing methods largely differ in their implementation, they all share a common principle, that is, the capital budgeting approach for calculating the economic return of a project as a sequence of discounted cash flows (Chiesa and Frattini, 2009).

The financial indicators can be divided into three groups.

- The first group of indicators should serve to evaluate the contribution of innovations to the increase in the competitiveness of the entire enterprise. The most frequently used indicators in this category include, for example, the production power, return on sales, liquidity and indebtedness.

- The second group of indicators should allow the evaluation of the reflection of the innovation plan in the economic results of the enterprise. These include profitability indicators – ROCE, ROI and ROE.

- The third group of indicators is used to evaluate the financial effects of innovative activities and is represented, for example, by the working capital turnover ratio, the profit ratio and the total rate of return.

Other popular effectiveness innovation metrics in industry are the percentage of revenues from new products, percentage of growth in new products, and overall profits generated by new products (Cooper et al., 2004).

"An innovation is successful if it positively contributes to profits and return of a company!" (Gemünden and Littkermann, 2007; Pitra, 2006; Thomaschewski and Tarlatt, 2010)

In this regard it is difficult to state what the optimal length of the planning period is. Some innovations require a significantly longer market introduction and acceptance period, others are generating payback quickly (Thomaschewski and Tarlatt, 2010). An ideal amortization period needs to compensate for the invested capital: e.g. the costs for R&D, production, market launch and marketing as well as the cost of capital.

This brings us to another important issue. The results achieved are compared with a reference value during and at the end of the project implementation process. The question is, therefore, what the obtained data will be compared with – setting a baseline for comparison. One option is to compare with the existing situation – at the time when we measure e.g. the degree of progress in technical parameters, growth rate or increase in economic parameters such as the amount of profit, sales, contribution margin and market share. Subsequently, it is useful to compare the individual parameters with pre-defined goals, obviously provided that they were set realistically and, simultaneously, with sufficient stringency.

Comparison using benchmarking seems to be the most appropriate method. Such a comparison can be made with a competing enterprise but also against an “ideal” or normative
model. These include, for example, the Malcolm Baldridge Award in the US, the Deming Prize in Japan and the Quality Award in Europe. The growing use of the Internet has led to numerous web portals offering interactive systems for evaluating enterprise innovation effectiveness.

One necessary way of considering innovation is to estimate the consequences of not innovating. The question to be asked is no longer "How much does a technology cost?", but "How much will a potentially relevant technology cost if I do not have it?" It was in this sense that Henry Ford observed, "If you need machine and do not buy it, you will pay for it without possessing it". Especially companies which are in a follower position need to consider this opportunity cost (Hartmann, 2010).

Non-financial metrics

Economic assessment is an integral part of every project. Owners also prefer an economic approach. It should be borne in mind that owners have invested in the company with the prospect of achieving a return. From the owners’ perspective, the company is a “money machine” and if it fails in this role, the owners see the root cause in incompetent management – and rightly so from their perspective. Financial indicators are indispensable for evaluating effectiveness – they alone can inform managers whether the company is generating value and whether the measures adopted by them have contributed to value generation. However, a fundamental shortcoming of financial indicators is that financial information reflects the consequences of management decisions in the past and their development is influenced by numerous effects which cannot be specified (Kislingerová, 2008). Comprehensive financial indicators are also very difficult to link with the development of basic internal processes and other areas that influence the company’s success. There is also growing criticism of aspects such as a lack of conciliation with the corporate strategy, a lack of feedback, poor customer orientation, etc. (Gleich, 2001).

Simply speaking, only those projects that pay off should be implemented. “But how to assess objectively the rate of return of the invested efforts and time?” Assessing the results of a project only in terms of its economic benefits may not be the most advantageous way, since it may also result in rejection of projects in which the qualitative benefits significantly exceed the potential costs associated with project implementation.

The development and improvement of innovation measurement systems therefore took the path of supplementing financial indicators with many other non-financial indicators used by enterprises seeking to measure and evaluate the development of basic success factors in their respective strategic areas (Chakravarthy, 1986; Ittner and Larcker, 1998b; Kaplan and Norton, 1992; Merchant, 1985; Meyer, 1994; Nanni et al., 1992; Neuman et al., 2008; Palmer, 1992; Vaivio, 1999). It was clear that traditional systems of measuring effectiveness could not succeed in the changing conditions of global business (Hayes and Abernathy, 1980; Johnson and Kaplan, 1987).

Non-financial indicators are not a new concept but they have enjoyed a huge interest among the professional public since the 1980s. Integration of non-financial metrics into systems for measuring effectiveness allows managers to better understand relations between various strategic innovation targets, communicate the linking of these targets with workers' activity and, upon the defined targets to formulate priorities and allocate resources (Kaplan and Norton, 2000).

The main contribution of non-financial indicators is the identification of key factors influencing the development of financial indicators (Ittner and Larcker, 1998a; Nanni et al.,
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1990; Neumann et al., 2008; Vaivio, 1999). These indicators are also more sensitive to changes, which can be considered a crucial characteristic in the current turbulent environment. Non-financial metrics play an extremely important role, both at the level of internal processes and at the corporate level. In companies with long cycles of product design and development, the cycle of innovation is more important than the operating cycle. The process of innovation usually requires a longer period of time for value creation, in which new markets and new customers see their expectations met; R&D activities are critical in the implementation of these expectations (Bremser and Barsky, 2004).

The results of the international study have confirmed that there is a strong association between the use of non-financial indicators and strategy oriented on innovation and quality (Said et al. 2003). Another experts (e.g. Bessant and Tidd, 2011; Ryan, 2006) in the given field propose to use – in addition to the already mentioned financial indicators – a number of other, more specific indicators of internal processes, such as:

- The number of new ideas generated at start of innovation process.
- Failure rate – in the development process, on the market, etc.
- The number or percentage of excess lead times and cost budgets.
- Customer satisfaction criteria – would it be what the customers want?
- New product lead time – comparison with industry standard.
- Development man-hours per completed innovation.
- Average lead time of process innovation.
- Criteria of continuous improvement – the number of proposals per employee, the number of teams solving problems, etc.

There is also space for the measurement of other important factors that support the innovation process, such as creative climate, commitment to innovative activity, the number and quality of ideas, communication inside the company, etc. (Bessant and Tidd, 2011; Humphreys et al., 2005). In addition to quantitative indicators which are easy to measure, causative qualitative measurement systems are also coming to the forefront. It is increasingly true that soft factors are gaining in importance and, in fact, “grow hard”. In comparison with traditional indicators, the generation of indicators for measuring soft factors has only begun to develop (e.g. Hipp and Grupp, 2005).

Unfortunately, there are no uniform guidelines in the professional literature for measuring the effectiveness of innovations (Adams et al., 2006). Every innovation is unique, specific, and intended to bring competitive advantage and company growth (Bonner et al., 2001). It brings a growth in revenues but also generates costs. From this point of view, the use of selected financial indicators appears to be a suitable approach to the measuring of the effectiveness of innovation activities.

However, the evaluation of effectiveness of innovation activities has its pitfalls. Traditional accounting information cannot reflect some indirect consequences of business decisions. Financial indicators are related to short-term objectives and built on historic accounting data – as such they are not suitable for predicting future developments and for strategy-making; in fact they represent “delayed indicators”. Since they are mostly based on profitability and net profits, there is a risk of their being “embellished” by manipulating the profit/loss figures (Kislingerová, 2008).

A well-developed system of evaluation of innovation projects should therefore contain a suitable mix of quantitative financial and qualitative non-financial indicators, the former best suited to capture unmeasurable aspects, and the latter capable of reducing the subjectivity of the evaluation (Driva et al., 2000; Chiesa and Frattini, 2009; Pappas and Remer, 1985; Werner and Souder, 1997). Furthermore, given that economic-financial indicators are often
questionable since it is very difficult to give a monetary evaluation of intangible and distant-in-time elements, as typically happens in innovation (Frattini et al., 2006), they are often integrated by non-financial indicators, which can be more easily estimated. Then, the use of benchmarking to compare metrics with competitors or excellence models is beneficial.

**Matrix of financial and non-financial metrics**

Integrated measurements have the particular characteristic of combining numerous aspects of a single reality; they make it possible to utilise a series of quantitative-subjective, quantitative-objective and qualitative measurements jointly for the assessment of a single concept or reality. Often, this integration generates more information on the effectiveness of the R&D activities measured than if each measurement or indicator were taken individually (Werner and Souder, 1997).

Individual indicators for measuring multidimensional innovation effectiveness are insufficient on their own as they always view innovations from just one perspective. The problem of practically all available metrics is, the fact that measuring of innovation should be performed efficiently, i.e. functionally (it must yield relevant information for company management) and economically (it must be performed at a reasonable cost). Individual indicators usually meet the condition of economy but rarely of functionality because they view innovation from too narrow a perspective.

To evaluate the ability or performance it is necessary to have a full perspective, which is why we see a solution in using a system with several individual indicators. However, complex indicators clash with economy and sometimes also with functionality as they contain subjective or hard-to-forecast indicators. Despite these shortcomings the use of complex innovation indicators is probably the best option. If they measure innovation capability, effectiveness or their combination they always study the innovative process from more perspectives and from multiple angles. It strives to reflect the full picture of the studied area, which cannot be achieved with individual innovation indicators.

The Balanced Scorecard method seems most appropriate for introducing a complex system of measuring innovation effectiveness for an entire enterprise (for more information about this method see e.g. Horvath & Partners 2004; Kaplan, Norton 1996; Kaplan, Norton 2001; Niven 2005; Niven 2014). The effects and potential of implementing Balanced Scorecard may be great and very tempting (e.g. Bremser and Barsky, 2004; Horvath & Partners, 2002; Kaplan and Norton, 1996):

- The company translates its strategy into operational terms using Balanced Scorecards and strategic maps. The Balanced Scorecard aligns the organisation structure with the strategy, by cascading from the highest-level scorecard to strategic business units, to support departments and to external partners.
- The Balanced Scorecard indicator system will enable continuous control over the meeting of strategic goals through fulfilling effectiveness indicators. This creates strong feedback allowing for fast updating of an unrealistic strategy. Balanced Scorecard will provide an overview of the actual performance of all internal company processes, which enables efficient management of process effectiveness enhancing, including the evaluation of actually achieved efficiency of investments. Balanced Scorecard provides an overview of the causal structure of the company, the main factors of effectiveness, their development and mutual relations.
- The Balanced Scorecard will allow for efficient communication between all organisational units of the company during the implementation of a strategy, and implement
feedback for adjustment of goals set for organisational units and individuals with the goals of the company.

- The Balanced Scorecard concentrates attention of the management and all other workers on fulfilling the strategy, therefore on creating future prospects. The checking of past development is just a tool.
- The Balanced Scorecard makes strategy a continual process by linking budgets to strategy, implementing a process for learning and adapting the firm's strategy; and mobilises leadership for change in the strategic management system.

A well-implemented Balanced Scorecard system allows for efficient following of a company innovation strategy. Moreover, considering the problems raised in the literature on the innovation management in respect of measuring the inputs and outputs of this type of activity, there are two reasons why it would be useful to have such a Balanced Scorecard. The first arises from the difficulties found in the employment of some of the indicators traditionally utilised in measuring the success obtained by companies in their innovative activities (Donnelly, 2000); the other arises from the lack of consensus in their choice of the dimensions that should be included in reports prepared for the strategic management of this type of activity, as well as from lack of alignment of the measurements of the returns from these activities with the strategy of the company; the Balanced Scorecard is one of the instruments for the measurement of these returns recommended in the literature on management of R&D (Bremer and Barsky, 2004; Kerssens-van Drongelen and Cook, 1997; Pearson et al., 2000). However, Balanced Scorecard implementation must be done properly with regard to company's aims, strategy, advanced management system, information support and communication.

Conclusions

In spite of the abundance of books and publication written over past few years in the field of effectiveness measurement, the problem of defining a rigorous model for measuring innovation and its effectiveness has not been solved yet (Lazzarotti et al., 2011; Neely, 2005), although some notable and interesting attempts have been recently published (Apergis et al., 2013; Carayannis and Provance, 2008; Smith, 2006; Tohumcu and Karasakal, 2010).

As stated in the previous text of this paper, every innovation should be implemented in practice as an investment innovation project. Then, the process of examining the effectiveness of innovation activities is also likely to have much in common with the measurement of the effectiveness of investments (Erner and Presse, 2010; Gailly, 2011; Huang et al., 2004). Considerable amounts are expended in this process which can bring the required effect only after some time (for example, Mensch, 2002; Patterson, 2009). Financial indicators are indispensable for assessing business effectiveness. Just they can inform the managers about the company's capability of creating value and allow them to check whether any employed measures contributed to the creation of value.

However, science and experience have concluded that financially-oriented traditional accounting control systems are of limited use for the management of a company. The rising criticism covers aspects such as a disregard of non-financial factors, missing alignment to corporate strategy, a retrospective view, etc. Therefore, several new concepts, such as the Performance Measurement Matrix (Keegan et al., 1989), the Performance Pyramid (McNair et al., 1990), Balanced Scorecard (Kaplan and Norton, 1992; 1993; 1996; 2000), the Integrated Performance Measurement Systems (Bitici et al., 1997), the Performance Prism (Neely and Adams, 2001), Data Envelope Analysis (Charnes et al., 1978), Quantum Performance
Measurement (Hronec, 1993), the Technological Value Pyramid (Tipping et al., 1995), EFQM Excellence Model (EFQM, 1999), Tableau de Bord (Lebas, 1994) or Productivity Measurement and Enhancement System (Pritchard, 2008), have been developed.

The most famous and widely spread model is Balanced Scorecard. It is a strategic control system that has the merit of balance between financial and non-financial metrics and between internal and external factors affecting business (innovation) strategy. It links strategic objectives (long-term orientation) with annual budgets (short-term orientation), clarifies and gains consensus about strategic goals, tracks individual and collective performances, and defines and communicates company goals to its internal and external stakeholders.

Although its original idea focused on business strategy it can be applied to any company process including innovation. Nonetheless (!) the introduction of a comprehensive Balanced Scorecard system, although its philosophy is simple and logical, is too challenging for Czech SMEs – in terms of time, organisation, and finance. The contemporary situation of Czech SMEs requires them to concentrate more on operational efficiency and thus putting them out of practical research and development, which kills the motivation of workers for an active approach to increasing innovation effectiveness (Žižlavský 2014). Upon contacts with managers and owners of Czech enterprises it can be stated that they are interested in modern management methods but the implementation of Balanced Scorecards faces many challenges. In most small and medium enterprises successful implementation of Balanced Scorecard is feasible only in co-operation with a specialised consulting company.

In particular, the empirical evidence (Žižlavský, 2015) demonstrates that Czech companies, especially medium and large, monitor effectiveness of innovation activities by using specific financial and non-financial measures, but without any logical link between them. In other words, only a small number of companies, especially large ones and those having different perspectives, actually understand the importance of cause-effect relationship between metrics.

References


THE CHALLENGES AND PRACTICE
OF LITHUANIAN NATIONAL INSTITUTIONS
ENSURING FAIR TRANSITION FROM LITAS TO EURO

Abstract

Purpose – to review and assess the challenges and practice of institutions responsible for ensuring the fair transmission from litas to euro (Competition Council of Republic of Lithuania, etc.).

Design/methodology/approach – Document analysis and systematic analysis methods are predominant. The research covers the period from the August 22, 2014 until the June 30, 2015.

Findings – The practice of national currency transmission to the euro in Lithuania was smooth and determined by the proper initial preparation. The tight communication with countries that already adopted the euro ensured the smoothness and transparency of the transmission process.

Practical implications – The results of this research could be useful not only as an assessment of Lithuanian national practice but also as a guideline for the member states aiming to join the Eurozone.

Originality/Value – In order to provide comprehensive results, this research expands to the related initial preparation activities. The challenges, fixed unfair practice and the decisions of related responsible institutions are assessed.

Keywords: currency; litas; assessment; institution; practice; challenges; Lithuania; transmission

Research type: case study.

JEL classification:
G18 – Government Policy and Regulation
K20 – General (Regulation and Business Law)
K42 – Illegal Behavior and the Enforcement of Law

Introduction

The idea of a single currency in Europe was born more than five decades ago. The new currency era officially started on January 1, 1999, when the ECU was replaced by the euro. The first eleven EU member states that joined the Eurozone are Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain. A few years later, Greece (2001) joined the ‘Eurozone Club’. Sixteen years later the Eurozone gradually expanded to 19 members, when seven new members joined: Slovenia (2007), Cyprus (2008), Malta (2008), Slovakia (2009), Estonia (2011), Latvia (2014), and Lithuania (2015). It should be noticed that the last seven members are from the block which joined the EU on May 1, 2004. From the countries which joined the EU in 2004, just Czech Republic, Hungary and Poland still do not belong to the Eurozone (Commission’s Report of July 23, 2014). Currently, Lithuania, which joined the Eurozone on January 1, 2015, is the last official member of ‘Eurozone Club’. The earlier adoption of the euro by other members like Estonia and Latvia

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was useful for Lithuania, and Lithuania's current practice is useful for future members of the Eurozone.

On June 26, 2013, the government of the Republic of Lithuania by Resolution No 604 approved the national euro changeover plan (hereinafter – Changeover Plan). The Changeover Plan states that it 'has been prepared having regard to the practice of the European Union Member States in adopting the euro, the decisions adopted at European and national levels, as well as evaluating the experience gained through the re-introduction of the litas in the Republic of Lithuania in 1993'.

The EU agreement with Lithuania means that Lithuania not only expressed the desire to be part of 'Eurozone Club' but also met strict euro convergence criteria (also known as the Maastricht criteria disclosed in Article 140 of the Treaty on the Functioning of the European Union and Protocol No 13 on the convergence criteria).

In the law from June 17, 2014, No XII-828, the Lithuanian Parliament set the rules for national currency transition from litas to the euro. Article 140(3) of Treaty on the Functioning of the European Union set requirements which allow European Council to 'irrevocably fix the rate at which the euro shall be substituted for the currency of the Member State concerned, and take the other measures necessary for the introduction of the euro as the single currency in the Member State concerned'. Such a rate for Lithuania was approved on July 23, 2014, by the European Union General Affairs Council of Ministers: 1 euro = 3.45280 litas (Council Regulation No 851/2014). The same rate was set on February 1, 2002, by Resolution No 15 of the Board of the Bank of Lithuania and approved by Resolution No 157 by the government of the Republic of Lithuania.

The national currency, litas, gradually had to be replaced by the euro in accordance with the approved schedule which is provided in Table 1.

<table>
<thead>
<tr>
<th>Dates / period</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 23, 2014</td>
<td>The irrevocable rate was fixed (1 euro = 3.45280 litas)</td>
</tr>
<tr>
<td>August 22, 2014</td>
<td>Since this day the obligation to provide prices both in euro and litas occurs</td>
</tr>
<tr>
<td>January 1, 2015</td>
<td>Official day for euro in Lithuania</td>
</tr>
<tr>
<td>January 1-15, 2015</td>
<td>Is possible to pay for goods and services using both currencies</td>
</tr>
<tr>
<td>January 16, 2015</td>
<td>On this day goods and services must be paid using only euro</td>
</tr>
<tr>
<td>June 30, 2015</td>
<td>The last day to provide prices in two currencies</td>
</tr>
</tbody>
</table>

Each currency transition from one to another has the potential to raise unfair practices. It is the reason why the wide range of national public institutions should be involved in monitoring fair practice assurance processes. Also it is helpful to receive support from the private sector.

**Lithuanian Institutions Responsible for Ensuring Fair Practice**

National authorities for Lithuania monitored the currency transition process to provide relative comfort, trust the procedures for citizens and legal entities, and fairness of practice.

The law of June 17, 2014, No XII-828 provides the list of institutions responsible for ensuring the fair practice of adopting the new currency which are Information Society Development Committee under the Ministry of Transport and Communications; State Consumer Rights Protection Authority; State Plant Service under the Ministry of Agriculture;
State Food and Veterinary Service; Drug, Tobacco and Alcohol Control Department; The State Non-Food Products Inspectorate under the Ministry of Economy; State Health Care Accreditation Agency under the Ministry of Health; Counties’ Public Health Centers; State Medicines Control Agency; State Department of Tourism under the Ministry of Economy; State Energy Inspectorate under the Ministry of Energy; National Commission for Energy Control and Prices; Competition Council of the Republic of Lithuania; Bank of Lithuania; Communications Regulatory Authority. Along with the specialized institutions in the above list, the municipal executive officers and traffic control operators are important in this process.

The above-mentioned institutions do not appear on the list accidentally. All of them are responsible for fairness of practice in the fields covered by their direct activity. This means that the duty to ensure the fair practice in currency transmission derives not from the law of June 17, 2014, No XII-828, but from their direct functions.

Table 2. The top 5 institutions by amount of examinations (in accordance with data provided by State Consumer Rights Protection Authority)

<table>
<thead>
<tr>
<th>Institutions</th>
<th>Count of examinations</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Food and Veterinary Service</td>
<td>12505</td>
</tr>
<tr>
<td>State Consumer Rights Protection Authority</td>
<td>5490</td>
</tr>
<tr>
<td>Public Consumer Associations</td>
<td>5435</td>
</tr>
<tr>
<td>Public Health Centers</td>
<td>4269</td>
</tr>
<tr>
<td>State Non Food Products Inspectorate</td>
<td>2763</td>
</tr>
</tbody>
</table>

The amount of 1000 examinations also exceeded the Information Society Development Committee (1442) and Municipalities (1367).

The institutions responsible for the fair practice insurance are empowered to punish violators.

Table 3. Penalties for breaking the Law of June 17, 2014 No XII-828 (Article 29)

<table>
<thead>
<tr>
<th>Violation type</th>
<th>Fine</th>
</tr>
</thead>
<tbody>
<tr>
<td>First time (persons)</td>
<td>A warning</td>
</tr>
<tr>
<td>First time (legal entities)</td>
<td>A warning or a fine of up to 1000 litas (289.62 euro)</td>
</tr>
<tr>
<td>Repeated infringement (persons)</td>
<td>A fine of up to 5000 litas (1448.10 euro)</td>
</tr>
<tr>
<td>Repeated infringement (legal entities)</td>
<td>A fine from one 1000 to 10000 litas (289.62-2896.20 euro)</td>
</tr>
</tbody>
</table>

The participation of a wide range of public institutions in the monitoring process is vital. The aims of the monitoring process were also transferred into private practice – the legal entities received the possibility to join the ‘Club of Fair Players’ by signing and acting in accordance with the Memorandum of Good Business Practice during the Adoption of the Euro (hereinafter – Memorandum). The Memorandum indirectly defines the general purpose of the monitoring process. The Memorandum was prepared in order to create ‘a mutual trust based
Assessing the Practice of Lithuanian Institutions

The success of every currency changeover plan depends on the preparation and adoption stages. Both stages are based on legal, financial, technical processes, and spreading information about the new currency, schedules of transmission and its processes. Here, Lithuania had support and received examples of positive practice from countries that adopted the euro earlier. Such conditions are called to make the processes easier and softer.

The principles of fair practice are reflected in the Lithuanian Memorandum: fairness, responsibility, transparency, complaisance and sense of community. The content of these mentioned principles should be disclosed:

- **Fairness.** New currency cannot become a reason to increase prices;
- **Responsibility.** The recalculation of prices should be conducted in accordance with fixed conversion rate and rounding rules;
- **Transparency.** During the officially fixed period, prices should be displayed in litas and euro fairly;
- **Complaisance.** The employees should be able to assist the customers (explain the principles of conversion);
- **Sense of community.** The wider range of subjects should be encouraged to comply with fair practice.

The first three principles are criteria to be assessed by the responsible institutions, and the last two should be the inner goals for all responsible businesses.

The website of the Lithuanian State Consumer Rights Protection Agency has started to provide the lists of most common infringements during the transition period:

- The prices were not displayed in two currencies (51 percent). The analysis of infringements states that some legal entities: a. started to provide prices in euro too late; b. stopped displaying prices in litas too early;
- The recalculation of prices was conducted not in accordance with rounding rules (28 percent). The analysis of infringements states that after rounding, the prices were more convenient for those who recalculated the prices;
- The recalculation of prices was not conducted in accordance with the fixed conversion rate (15 percent). The analysis of infringements states that some legal entities displayed higher prices in euro;
- The prices were displayed unclearly and misleadingly (6 percent). The analysis of infringements states that in some cases the customers discovered the final price only at the time they needed to pay.

Other countries encountered the same problems as they adopted the euro, so Lithuanian institutions expected these infringements.

The Lithuanian National State Consumer Rights Protection Authority published the list of violator on its website in order to protect consumers. This information is useful for customers so they can avoid contact with the persons accused of the breach of the law and unfair practice.

In accordance with the Report of July 10, 2015, No 3-851 form the Lithuanian State Consumer Rights Protection Authority, 33828 examinations were completed and found 1491 infringements during the period from August 22, 2014 to June 30, 2015. Suspicions were confirmed in just 4.41% of the cases. The amount of the imposed fines was tiny – only 1992.8
EUR, which is only 1.34 EUR per determined infringement. In the absolute majority of cases, the legal entities were warned, and only 18 of them received financial sanctions (on average 110.71 EUR):

- In 9 cases the fine was imposed for violation of the rules of recalculation of prices;
- In 6 cases the fine was imposed for not displaying prices in two currencies;
- In 3 cases the fine was imposed for displaying prices unclearly and misleadingly.

The easiest way to cheat is to break recalculation rules. The customers often do not have the time to recalculate prices, so they trust the goods seller or service provider. In other cases cheating was more difficult: a. customers were expecting prices in two currencies (this infringement is easy to recognize); b. customers were expecting to understand the information without additional thinking about its content (unclear information raises additional questions). Despite that, the highest rate of all determined infringements (51 percent) was connected with non-displaying prices in two currencies.

Table 4. The amount of examinations during the period August 22, 2014 – June 30, 2015

<table>
<thead>
<tr>
<th>Month</th>
<th>Examinations</th>
<th>Month</th>
<th>Examinations</th>
</tr>
</thead>
<tbody>
<tr>
<td>August, 2014</td>
<td>625</td>
<td>February, 2015</td>
<td>3792</td>
</tr>
<tr>
<td>September, 2014</td>
<td>3540</td>
<td>March, 2015</td>
<td>4302</td>
</tr>
<tr>
<td>October, 2014</td>
<td>3365</td>
<td>April, 2015</td>
<td>3343</td>
</tr>
<tr>
<td>November, 2014</td>
<td>3909</td>
<td>May, 2015</td>
<td>4012</td>
</tr>
<tr>
<td>December, 2014</td>
<td>2380</td>
<td>June, 2015</td>
<td>2471</td>
</tr>
<tr>
<td>January, 2015</td>
<td>2089</td>
<td>Total</td>
<td>33828</td>
</tr>
</tbody>
</table>

Table 5. The amount of punished entities the period August 22, 2014 – June 30, 2015

<table>
<thead>
<tr>
<th>Month</th>
<th>Punished entities</th>
<th>Month</th>
<th>Punished entities</th>
</tr>
</thead>
<tbody>
<tr>
<td>August, 2014</td>
<td>31</td>
<td>February, 2015</td>
<td>113</td>
</tr>
<tr>
<td>September, 2014</td>
<td>255</td>
<td>March, 2015</td>
<td>127</td>
</tr>
<tr>
<td>October, 2014</td>
<td>212</td>
<td>April, 2015</td>
<td>137</td>
</tr>
<tr>
<td>November, 2014</td>
<td>193</td>
<td>May, 2015</td>
<td>100</td>
</tr>
<tr>
<td>December, 2014</td>
<td>142</td>
<td>June, 2015</td>
<td>69</td>
</tr>
<tr>
<td>January, 2015</td>
<td>112</td>
<td>Total</td>
<td>1491</td>
</tr>
</tbody>
</table>

The majority of the examinations were conducted during March 2015 and May 2015 before the obligation to provide prices in two currencies expired. The examinations at the end of period often vividly reflect the situation in the market. It was useful for responsible institutions to conduct more examinations at the end of period.

Comparison of Lithuanian Practice with Practice in Estonia and Latvia

Because of the close cooperation with EU partners and the analysis of good and bad practices from Estonia and Latvia helped soften the transition to the euro in Lithuania.
The Lithuanian Changeover Plan had the same essential provisions as the Estonian (from Version No. 9, October 2010) and Latvian (approved by Order No 441 of the Cabinet of Ministers of 19 September 2012) Changeover Plans.

Table 6. Approved rates for Baltic States
(Council Regulations No 671/2010, No 870/2013 and No 851/2014)

<table>
<thead>
<tr>
<th>Country</th>
<th>Council Regulation</th>
<th>Date of Regulation</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estonia</td>
<td>No 671/2010</td>
<td>July 13, 2010</td>
<td>1 euro = 15.6466 kroons</td>
</tr>
<tr>
<td>Latvia</td>
<td>No 870/2013</td>
<td>July 9, 2013</td>
<td>1 euro = 0.702804 lats</td>
</tr>
<tr>
<td>Lithuania</td>
<td>No 851/2014</td>
<td>July 23, 2014</td>
<td>1 euro = 3.45280 litas</td>
</tr>
</tbody>
</table>

The provided rates were the most important factor for providing the recalculation of prices and displaying them in two currencies. The analysis of the practice states that the softest transmission was in Lithuania:

- Estonia – determined 19.49 percent infringements from all examinations (6798 examinations – 1325 infringements);
- Latvia – determined 20.89 percent infringements from all examinations (37068 examinations – 7744 infringements);
- Lithuania – determined 4.41 percent infringements from all examinations (33828 examinations – 1491 infringements)

Such results of the Lithuanian transmission from litas to euro, especially taking into account the comparison of the results from Estonia and Latvia, are impressive, taking into account the fact that Lithuania is the largest Baltic State.

Conclusions

The practice of national currency transmission to the euro in Lithuania was smooth and determined by the proper initial preparation. The tight communication with countries that already adopted the euro ensured the smoothness and transparency of the transmission process. Especially valuable was the practice of Latvia, which by the number of parameters is close to Lithuania, and adopted the euro just one year earlier.

Despite the smoothness of the process, all three Baltic States faced the same problems during the official transmission period. The most common violations during the transition period were a. prices were displayed only in one currency; b. conversion was not in accordance with the official rate and not in accordance with the rules; c. prices were displayed unclearly and misleadingly.

In order to ensure the fair transition from litas to euro, the wide list of national institutions were involved into the monitoring process. The State Consumer Rights Protection Authority prepared and provided the report of the transmission period.

The national institutions were gentle in imposing fines. Financial sanctions were imposed in only 18 cases. Lithuania, in comparison with Estonia and Latvia, had the softest transmission period.

Suggestions

The transmission process in all countries has the same threats (unfair conversion, misleading, uncompleted information and other infringements). To soften the transmission
process, it is highly recommended to analyze the practice of countries recently adopted euro and also to receive the feedback from persons involved in the transmission process. This practice was helpful for Lithuania during the all transmission period.

The institution directly responsible for customer rights protection should be the institution collecting, systemizing and analyzing all data received from institutions responsible for fair practice. All institutions involved in the process should cooperate.

References

AUTHORITY AND POWER ALLOCATION
IN THE QUALITY ASSURANCE OF HIGHER EDUCATION –
A SYSTEMIC APPROACH

Abstract

Purpose – The present paper aims at analyzing the background and behaviour of a series of national systems of quality assurance in higher education when deciding to move across a “soft power” – “hard power” continuum, while approaching systemic views over the changes in authority allocation.

Design/methodology/approach – Starting from two different paradigms of power in quality assurance of higher education (Singh, 2011), as well as from several types of government interventions in quality assurance globally (Salmi, 2015), the study approaches an investigation of quality assurance models across Europe and a critical analysis of the data collected from several countries across Europe through qualitative research instruments.

Findings – The paper presents the background that selected countries have taken into account when deciding to change the purpose of the national quality assurance systems and, secondly, the instruments they used to empower higher education institutions in developing their internal quality assurance provisions and to enhance their independence in managing the programme-related tasks.

Research limitations/implications – The current available information regarding the background information on the shifts of approach in different countries is rather limited and the decisions are not proven to be evidence-based. Therefore, the collected data is rather based on subjective interpretations of the interviewees, as the systems themselves are “replete with power tensions”.

Practical implications – The collected data provides crucial insight regarding the indicators reflecting the maturity of the quality assurance systems in higher education, as well as the supportive measures for higher education institutions after the state’s shift of approach.

Originality/Value – The paper provides crucial indicators and suggestions that other countries can take into account when deciding to shift their national quality assurance system to a more fit for purpose approach.

Keywords: quality assurance; higher education; system; state; enhancement

Research type: research paper

JEL classification:
I20 – General (Education and Research Institutions)

Introduction

While referred to as a philosophical concept that lacks a general theory in the literature (Green, 1994; Westerheijden, 1999), quality of higher education doesn’t seem to have an agreed definition in academic literature: authors have rated it as notoriously elusive (Gibson, 1986; Neave, 1986; Scott, 1994), slippery (Pfeffer and Coot, 1991), relative (Baird, 1998; Harvey and Green, 1993; Middlehurst, 1992; Vroeijenstijn, 1992; Westerheijden, 1999), dynamic (Boyle and Bowden, 1997) and multidimensional (Campbell and Rozsnyai, 2002).

Likewise, quality assurance (QA) is referred as a systematic, structured and continuous attention to quality in terms of quality maintenance and improvement (Vroeijenstijn, 1995), a

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collective process by which a university ensures that the quality of educational process is maintained to the standards it has set itself (Wilger, 1997), a process of establishing stakeholder confidence that provision (input, process, and outcomes) fulfils expectations or measures up to threshold minimum requirements (Harvey, 2002) or the totality of the policies, values/attitudes, procedures, structures, resources and actions devoted to ensure continuous improvement of quality of the educational processes (Kahsay, 2012).

European external quality assurance currently faces two different paradigms:

- **Quality Assurance soft power** - values and approaches which underpinned the ESG at its origins, commitments to collegiality, respect for diversity, strong focus on quality improvement or enhancement, recognition of institutional responsibility and autonomy, stakeholder consensus.

- **Quality Assurance hard power** - centralized regulation, quality assurance for regulation, outcomes regime based on institutional performance, consumer protection and consumer information at heart of QA, quantitative information (Singh, 2011).

A trustworthy system meets all major purposes of higher education, builds on and furthers sound values, allows for different institutional profiles, provides for transparent safeguards and is open about strengths and shortcomings (Bergan, 2011). The indicative trends point to a hardening of quality assurance in the direction of regulation, a move away from a regime which at least included the notion of quality improvement based on collegial engagement and recommendations to a regime requiring judgements of compliance against set standards (European University Association, 2011).

As early as 2008, Peter Williams (2008) has observed as president of European Association for Quality Assurance - ENQA that too many agencies had become fixated on processes rather than focusing on their original quality promotion purpose. He expressed concerns about what he called “the ossification” of quality assurance.

When referring to other types of grouping quality assurance systems as a result of similar investigations and research, ENQA has offered a classification of the Accreditation Models in Higher Education (ENQA, 2004) approaching the principles of the various accreditation methodologies and models in higher education, to demonstrate examples of possible good practices on the basis of country case studies, to discuss and evaluate the usefulness of accreditation activities, their strengths and weaknesses. Likewise, Brennan and Shah (2000) identified four main forms of approaching quality assurance: academic, managerial, pedagogic and employment focus. These four categories are elaborated further and applied by Luckett (2006), which argues that quality assurance systems are replete with power tensions; and thus, the focus in analysing any quality assurance system should not be so much on how quality is formally defined, as on in identifying whose interest is served. Luckett proposed four ways of thinking to quality assurance in universities: ‘collegial rationality, managerial rationality, facilitative rationality, and bureaucratic rationality’ (Luckett, 2006).

Also from the control and regulation points of view, Andrew Boon & Avis Whyte (2004) provide a Mapping Exercise on Accreditation Schemes approached as part of the alternative dispute resolution agenda. In 2014, the European Commission published a study on progress in the development of quality assurance systems in the various member states and on cooperation activities at European level (European Union, 2014) where authors observe that there is a trend for higher education systems to start with a quality assurance system focusing on supervision and ensuring minimum standards, which then evolves towards a more improvement-oriented approach. The study also comments that there are developments towards more institutional, „light touch” and enhancement-oriented quality assurance
systems, primarily in more „mature” systems acting in compliance with European Standards and Guidelines (ENQA, 2005), observing that the transition from a programme-oriented to an institution-oriented approach is often gradual, through the step-wise introduction of institutional elements.

In an attempt of analysing these trends, the present paper is addressing three research questions related to the background and behaviour of a series of countries that evolved towards a less state controlled approach of assuring the quality of higher education. In this regard, stakeholders from these countries took part in structured interviews.

Following the introduction, the author presents the methodology of the research and elaborates on the concepts of soft-power and hard-power in the quality assurance of higher education. Thirdly, the core analysis approaches inputs related to methodologies, background, motivation and support for each of the study cases that have registered (or plan to) movements across this continuum. Finally, the conclusions section draws on the impact of power distribution and role of the state in the organising of quality assurance in higher education sector.

**Methodology of research**

The objective of the research is to analyse the background and behaviour of a series of study cases when deciding to move across the soft power – hard power continuum, according to the notions’ descriptions above. This was approached by evaluating the answers provided through the structured interviews conducted with stakeholders from different countries in Europe that have registered (or plan to do so) movements across this continuum. All the participants to the interviews have a board systemic view over the national policies in place and have been or still are members of the decision making bodies within the national quality assurance agencies in their respective contexts included in the research: Finland, Norway, Scotland, Austria, Flanders and Slovenia.

The interview structured questions were sent to the participants via e-mail, given the European-wide reach of the models. Mangione (1995) suggested using e-mail surveys when the research sample is widely distributed geographically. Secondly, this instrument offered the participants privacy in answering; thirdly, the questions work better in a visual format rather than in oral mode. Mangione also remarked that the e-mail survey’s advantage is that it allows the respondents to answer questions at times that are convenient to them.

The research questions addressed were:
- What indicators did you use to determine the maturity/development level of the external quality assurance system and take into account when deciding to change its purpose?
- Once you decided to change the purpose of the national quality assurance system, how did you empower universities to develop their internal quality assurance provisions and to make sure they are capable of managing the programme tasks on their own?
- Did you add any financial motivations for different developments at institutional level as part of this empowerment or did you impose punitive measures?

Therefore, the present paper is analysing and comparing the data collected from the interviews.

When referring to the limitations of the research, it is important to mention that while some of the interviewees expressed their answers in their native language, that was not the case for all of the respondents, which can represent a certain barrier in assuring that all the participants were able to express themselves freely.
Secondly, the selection of the interviewees was not entirely objective: while all the participants had or still have decision making powers at the level of the national quality assurance agencies in their countries, they were approached based on personal relations in order to increase the chances of receiving answers to the research questions. Even if the participants were all legitimate persons to respond to the questions above given their continuous access to information, their selection might be seen as allowing for personal factors to interfere.

Thirdly, in some of the study cases, there has been a long time gap between the changes of the quality assurance system and the interviews, unlike other cases where this gap was much shorter or even inexistent. This aspect may affect the accuracy of the responses, therefore the limitation must be mentioned.

### Soft power vs. Hard Power in the Quality Assurance of Higher Education

A review of recent trends concerning the development of quality assurance from an international perspective can reveal several important aspects. While the establishment of national quality assurance structures has become a universal movement, with fewer countries left without a proper quality assurance system every year, it is difficult to discern any single general trend in terms of the evolving relationship between the state and quality assurance agencies. The country examples provided in the following table show a mixed picture, with some countries tightening the supervisory role of the state at the risk of compromising the independence of their national quality assurance agency, others moving to grant more autonomy to their quality assurance agency and/or the tertiary education institutions, and others carrying out significant structural changes with the aim of improving the effectiveness of their quality assurance system (Salmi, 2015).

<table>
<thead>
<tr>
<th><strong>Government intervention</strong></th>
<th><strong>Countries</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Creation of independent QA agency</td>
<td>Ecuador (2011), Greece (2005)</td>
</tr>
<tr>
<td>Merger of various QA agencies</td>
<td>Australia (2008), Austria (2014), Ireland (2011)</td>
</tr>
<tr>
<td>More rigorous QA standards/requirements</td>
<td>Chile (under review), Netherlands (2011), Turkey (2014)</td>
</tr>
<tr>
<td>Making accreditation compulsory instead of voluntary</td>
<td>Saudi Arabia (2013)</td>
</tr>
<tr>
<td>Naming and shaming/Cutting state subsidies</td>
<td>South Korea (2011)</td>
</tr>
<tr>
<td>Excessive bureaucratization</td>
<td>Argentina, Australia, England, Netherlands</td>
</tr>
<tr>
<td>Use of funding mechanisms to influence quality</td>
<td>Austria, Chile, France, Quebec, many U.S. States</td>
</tr>
<tr>
<td>Barrier to innovative practices</td>
<td>India (2014), Peru (2014)</td>
</tr>
<tr>
<td>Deregulation</td>
<td>Australia</td>
</tr>
</tbody>
</table>

Source: Salmi, 2015

At the same time, new accountability mechanisms have emerged in the recent years, complementing the traditional evaluation/accreditation role of quality assurance agencies.
Student engagement surveys, learning outcomes assessments, labour market observatories, rankings and performance indicators used in benchmarking exercises can all provide useful additional information for quality assurance purposes. The multiplicity of accountability mechanisms provides students, employers, government and society at large with more abundant and transparent data about the operation and results of tertiary education institutions. This also gives the opportunity to quality assurance agencies to embrace a more comprehensive approach in fulfilling their quality enhancement mission (Salmi, 2015).

**Soft-power external quality assurance models**

*Methodological aspects.* These models are cases where the state’s intervention has been low since the very initial implementation of the national system of quality assurance (Finland, Norway). In both cases, the quality assurance of the study programmes was the responsibility of higher education institutions, with the confidence that they are autonomous and responsible enough to manage this segment. Both countries are implementing an audit-based model aimed at assessing and recognizing the capacity of the internal quality management systems. In the context of the present paper, audit will be referred to as an external evaluation focusing on the procedures that the institution uses to maintain and develop the quality of its operations. “Quality system” refers to the development of the institution’s activities as a whole comprising quality management organization, division of responsibility, procedures, and resources. “Quality management” refers to the procedures, processes or systems that higher education institution use to maintain and develop the quality of their activities.

The quality audits assess how well the quality system meets the strategic and operational management needs of the institution as well as how comprehensive and effective the quality management of the basic duties of the higher education institution (HEI) is. Moreover, the higher education institutions’ quality policy, development of the quality system and how well-functioning and dynamic entity the system forms are studied. In other words, the quality audit does not evaluate the quality of the education or research of the higher education institutions.

In Finland, these quality audits include a sample of study programmes to reflect processes and regulations at this level. Finland also implements evaluations at higher education institutions’ level on themes that are important with regard to education policy for which new evaluation information is required to support national level decision-making. A thematic evaluation may focus on a single field of education or cover the whole higher education sector. In addition, thematic evaluations covering various educational levels (such as general upper secondary education and higher education) are also implemented.

Norway also organizes external evaluations of study programmes based on information from several sources, mainly from data collection processes, but also from the quality audits.

*Background, motivation and support.* It is really interesting to analyse the background of the decision making these states are referring to. Formal investigations of the concerned methodologies and history have failed to lead to official data to justify these choices (why did they establish a soft-power system in the first place). The research has showed an uncertainty around issues related to: the maturity of the higher education sector (without a specific selection of indicators to determine this maturity), the trust between the various stakeholders in the sector, the age and responsibility of the higher education institutions. Instead, these systems seem to have a political reasoning of the decision-making process.

When the national quality assurance agency in Norway (NOKUT) was set up in 2003, following a White Paper and legislation, the quality audit was written into the law books.
Higher education institutions were told through the same legislation what to expect. The law was passed in 2002 and institutions were given two years to build up their internal quality assurance systems, before the evaluations started. The agency also supported these developments through information conferences to prepare institutions for the new situation. It is important to mention, though, that the established institutions have had long experience in managing programmes, supported by national discipline committees. There were no incentives or punitive measures in supporting the introduction of this system, other than the danger of failing to have the internal quality management system recognized, in which case higher education institutions had to go through new rounds of evaluation – and in the worst case, losing the right to offer new programmes.

Regarding the establishment of this system in Finland, in addition to the foregoing factors raised by the interviewees, it seems that, even in this case there were no formal consequences if an institution failed to achieve a positive outcome after the quality audit. Moreover, the initial audit methodology did not even imply that the quality audit ends with a decision to pass or not pass the audit, but this was requested at a later stage by higher education institutions.

Models of hard-power quality assurance that advanced to the soft-power approach

Methodological aspects. These models refer to countries where external quality assurance systems were originally established to ensure the compliance of minimum standards involving very detailed study programme evaluations, but migrated to the institutional system (Scotland, Denmark and Austria).

In the case of Scotland, this shift towards the soft-power approach occurred in 2003, when the Enhancement Led Institutional Review (ELIR) was first implemented (Quality Assurance Agency Scotland, 2012). ELIR focuses on the institutions’ strategic approach to enhancement, which is implemented at multiple levels within the institutions. The resulting enhancement may involve continuous improvement and/or more significant step-changes in policy and practice. In order to take deliberate steps, it is expected that the institution will have a clear strategic vision of the enhancement it is seeking to bring about. It is also expected that the institution will evaluate its current strengths and areas for development. The Scottish sector has defined enhancement as taking deliberate steps to bring about improvement in the effectiveness of the learning experiences of students (Agency for Quality Assurance and Accreditation Austria, 2014). In addition, the national Scottish model also includes Subject Reviews. This type of evaluation is considered to be only partially external, given that the assessment team is made up mostly of experts from within the university and at least one from the outside of the institution. Through this model, we can see that the quality assurance of the study programmes is the responsibility of the higher education institutions, except that they must align to the guidelines developed by the Scottish Funding Council and to the United Kingdom Quality Code for Higher Education.

In Austria, different external quality assurance procedures are in place: initial programme accreditation for each new study programme at private universities or universities of applied sciences, initial institutional accreditation for each new private university or university of applied sciences, institutional re-accreditation for private universities (including the re-accreditation of existing study programmes) and audit of the internal quality management system of public universities and universities of applied sciences (same definition of the audit provided above is applied). The biggest change that has taken place with the “Act on quality assurance in higher education” (Federal Ministry of Science and
Research in Austria, (2012) was the compulsory external quality assurance for public universities. The other two sectors (private universities and universities of applied sciences) had been used to one or another kind of external quality assurance since the very beginning (private universities in 1999 and universities of applied sciences in 1994). Universities of applied sciences must undergo programme accreditation even their internal quality management systems has been certified in a quality audit.

In Austria, public universities are established by law; it is regarded to be part of the institutional autonomy of public universities (coming with the Universities Act 2002, which stepped into force 2004) that they decide themselves on setting up, implementing and consequently evaluating study programmes. Universities must have a procedure in place that provides the single steps for curriculum development (and this procedure shall be assessed in the quality audit). This includes not only the actual topics of the curricula with learning outcomes, ECTS, assessments etc., but also the decision making process on rectorate and senate level as well as financial questions.

Background, motivation and support. In Scotland’s case, the decision to shift from the hard-power system to ELIR seems to have been predominantly political. However, the foundation was provided by the outcomes of the previous quality processes (Scotland has data going back to the late 1980s when the general form of external quality assurance first began in the UK and Scotland). The research has shown that higher education institutions in Scotland needed a system that placed most of its efforts on quality enhancement rather than checking around the academic threshold. At the same time, one of the arguments was related to the cost efficiency of the procedures. There was also a general awareness of the fact that the year 2003 provided the opportunity to design a system that would be coherent and would fit the Scottish perspective, which is why the group today known as the Universities Quality Working Group addressed the question “what kind of quality arrangements did Scottish higher education need in order to deliver the kind of higher education sector that Scotland needs?".

Regarding the support given to higher education institutions in adapting to the new model, they were asked to run the subject reviews in accordance with sector-wide guidance, including the requirements for externality and student engagement. Also, higher education institutions were asked to report on the outcomes of their institution-led reviews while the agency reviewed the effectiveness of their arrangements (and, very important, their capacity for self-evaluation) through ELIR In addition, another form of supporting institutions is closely linked to the state’s financial investment. Scottish Funding Council directs funds to all institutions in order to strengthen certain segments of institutional quality through the Enhancement Themes.

In Austrian case, the decision to give up institutional evaluation for universities of applied sciences (as kind of institutional re-accreditation) and instead introduce the audit of the internal quality management system was less based on indicators but on the wish (and will) to roughly treat different sectors equally. The most important driver for the fact that public universities do not know external programme accreditation is autonomy. Some universities regard it even as an attack on their autonomy that they have to undergo an audit of their internal quality management system.

Consequences of failing an external quality assurance procedure differ from sector to sector. The “Act on quality assurance in higher education” stipulates that in case a University of Applied Sciences fails repeatedly the quality audit, it needs to undergo initial institutional accreditation (all study programmes would need to be closed immediately and re-accredited again). No consequences are stipulated for public universities.
Models of hard-power quality assurance that are currently shifting to the soft-power approach

Methodological aspects: These models refer to countries where the external quality assurance systems were originally established to ensure the compliance of minimum standards while performing very detailed evaluations on the study programmes level (Flanders - which operates on a different model from the rest of the country - and Slovenia), but are under testing or regulating in order to move towards a soft-power system.

Currently, the external quality assurance model in Slovenia aims at ensuring the compliance of minimum quality standards both at programme and institutional level, but a resolution on the National Higher Education Programme (Slovenian Ministry of Higher Education, Science and Technology, 2011) aims to abolish the study programme level evaluation (except for initial accreditation of new programmes) and keep institutional evaluations which would include a sample of study programmes. It should be noted that this shift of approach is one of the goals of the Ministry of Education, but has not been implemented yet since it requires amendments to the Law of Education. An important observation of this resolution is that abolishing study programme evaluations will be made only after an evaluation by the National Quality Assurance Agency and only if the agency believes that the internal quality assurance system is sufficiently comprehensive. One of the peculiarities of the system implemented in Slovenia today is that if institutions do not meet European Standards and Guidelines for Quality Assurance in Higher Education (ENQA, 2009), the so-called extraordinary evaluations can be triggered. This takes place at study programme level and can be initiated by the complaints of students, Government, Ministry or staff.

The model currently implemented in Flanders includes institutional and study programmes level evaluations. The institutional review is a periodical assessment of the quality of the educational policy pursued by an institution and is divided between five interconnected questions: On what social vision does the institution base its policy for the quality of the education it provides? What teaching and learning policy has the institution established to guarantee the quality of the education it provides? To what extent does the institution realize this educational policy? How does the institution know whether its policy measures are effective in respect of the quality of the education it provides? What policy does the institution pursue in order to optimize the quality of the education it provides? (NVAO, 2013)

Study programmes’ evaluation proposes that by combining intended, potential and achieved learning outcomes, the Quality Assurance Agency intends to assess whether a programme delivers what it promises to deliver (to students and the rest of the society). A programme is expected to explicitly define its intended learning outcomes. These express what a graduate should acquire during their studies. An assessment panel first judges whether a programme’s intended learning outcomes are in line with the required level and the subject of the programme. Secondly, the assessment panel assesses whether these intended learning outcomes are in line with what is (inter)nationally expected of a programme in that subject.

The national quality assurance agency currently aims to test the application in Flanders of a system where the agency would assess institutions and see if they can grasp the quality of teaching and learning. The model is currently in a pilot phase which involves 17 of the 30 institutions. If such model will be introduced after the piloting phase, institutions would be able to choose for a system of institutional or of programme assessments. If an institution fails
to receive institutional accreditation, the programmes of that institution would go back to a system of programme accreditation.

**Background, motivation and support.** Regarding the motivation of the decision taken by Slovenia, it appears that the general opinion sector wise is that the external quality assurance processes were so far somehow overlapped by evaluating all study programmes and institutions globally. In addition, the strong and sustained argument comes from the fact that higher education institutions wanted more autonomy. In proposing the shift from hard-power to soft-power system a number of indicators were considered (in addition to the political decision): analysis of self-evaluation reports of the higher education institutions in the country, reports and other documents of external evaluations carried out at different levels by various structures (European University Association, European Association for Quality Assurance, European Quality Assurance Register) as well as results of sectoral assessments at specific field of study.

In Flanders' case as well the discussion is very political. The main discourse about institutional autonomy is mainly focused on research universities demanding more autonomy in a context of less funding. Also, another part of the speech of institutions advocating for this change is the fact that the programme evaluation system was designed in 1984 and that the same method has been used since. The costs of these programme evaluations were related to the very limited benefits they bring in terms of quality. In terms of supporting institutions in the change process, there has been a lot of work nationally on establishing quality cultures within institutions for the last decade and there has been established a quality code that includes the quality features of programmes (i.e. the features of qualitative higher education programmes). These features are derived from the revised Part I of the ESG. In that way, quality culture is being combined with the European expectations regarding quality. If an institution can demonstrate its direction of the quality at programme level, the whole institution and its programmes receive accreditation. On the contrary, the programmes of that institution will need to undergo individual accreditation procedures. Thus, in addition to the reasoning above, the proposed model has attached a form of "sanction" as well.

**Conclusions**

From the research results outlined above we can confirm the viewpoints of the authors in the field of quality assurance regarding the trend of external quality assurance systems of higher education in Europe towards more soft-power models. That happens in countries where the states keep the responsibility for the quality assurance, however, reduces the control level over the study programmes.

We can observe that the common arguments of these changes are related to the cost effectiveness of quality assurance operations, overlap of evaluations, the maturity of national quality assurance systems but especially political dimension of the decision-making process.

In terms of supporting the institutions going through these changes, we can observe measures that are less consistent than the motivations above: additional funds for quality enhancement are present only in Scotland (even if the cost reduction itself is a constant argument in the other countries as well), while the remaining states motivate higher education institutions by providing systems that strengthen institutional autonomy and reduce the level of control and bureaucracy.

Globally, we can distinguish three principles of good accountability in quality assurance. First, the relationship between the state and quality assurance agencies must reflect a healthy balance between accountability and independence, with clear rules of engagement defined
and agreed upon regarding both elements. While the State—and society at large—have a legitimate interest in ensuring the quality of tertiary education, especially in countries where private providers and/or cross-border providers have multiplied, quality assurance agencies must enjoy sufficient autonomy to carry out their responsibilities in an effective manner. Excesses should be avoided on both sides. Governments must not allow politics and lack of trust to color their relationship with quality assurance agencies, and the latter should not be too lenient towards below-standards providers or too rigid towards innovative institutions. Second, in order to make a meaningful difference, quality assurance should not focus mainly on the way tertiary education institutions operate, but on the educational results that they actually achieve. To use the distinction proposed by Stein (2005), procedural accountability, which is primarily concerned with rules and procedures, is less meaningful than substantive accountability, which focuses on the essence of the research, teaching, and learning in tertiary education institutions. It may be easier to monitor the first type of accountability, but it is without doubt more relevant to concentrate on the second, notwithstanding its complexity and the difficulties involved in measuring the acquisition of competencies, student learning outcomes, and added value. Finally, the most effective accountability mechanisms are those that are mutually agreed upon between quality assurance agencies and tertiary education institutions. Agreement ensures a greater sense of responsibility for the evaluation and feedback process and fuller ownership of the quality assurance instruments (Salmi, 2015).

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MANAGERS BIG FIVE PERSONALITY TRAITS AND COMPETENCE ASSESSMENT LINKAGE FEATURES

Abstract

Purpose – to identify an interface between the Big Five personality factors model and considered manager’s competencies.

Design/methodology/approach – Quantitative research by using two questionnaires was implemented: Big Five questionnaire and Manager’s competency assessment questionnaire. Big Five questionnaire comprises 132 statements, five I (first) and ten II (second) order scales and lies scale. Manager’s competency assessment questionnaire was drawn up on the basis of the results of the work of managers.

Findings – Big Five Personality Factors associated with the considered shift manager competencies in particular spots. Results based on 70 samples of shift managers from 1 organization reveal that Extraversion positively correlated with Initiative, Supervisory abilities, motivating others competencies and overall supervisor rating. Agreeableness was positively correlate with Conflict management, Stress management and Cooperation competencies. Openness to Experience was positively correlate with Initiative, Decision quality competencies. Conscientiousness was positively correlate with Productivity, Responsibility, Planning, Customer focus, Organizational, Results Orientation competencies. Emotion Stability was positively correlate with Stress management, Customer focus, Decision quality and Conflict management competencies. As self-report measures, personality measures scale scores can be influenced by social desirable responding. Response bias continues to be the most frequently cited criticism of personality testing for personnel selection. In this study examining the link social desirability to Big –Five model of personality and to shift manager's competencies. Was found that social desirability in fact related to real individual differences in Emotional Stability, Conscientiousness, Agreeableness and Extraversion. Social desirability was positively correlate with Initiative, Results Orientation. Customer focus competencies. Social desirability influence predictive validity of this factors.

Research limitations/implications – Although the results of this research identified that some Big Five factors are associated with certain professional criteria, but subjectivity assumption suppose to be taken into account. This means that directors of the organizations who do the recruitment may need outside help to avoid subjectivity. It is also valid for the evaluation of work performance. Situation leads to understanding that further research could analyze links between Big Five factors and objective work performance evaluation criteria more detailed.

As the work was limited competency model expressed in labor efficiency, other studies would be useful to explore how this test can predict other professional criteria: career and entrepreneurship, etc. It is helpful to carry out a study with more subjects and more representative sample. Whereas research presents work performance efficiently expressed only by competency model further research could investigate how the test can predict other professional criteria. For instance career and entrepreneurship, etc. It could also be useful to carry out a study with wider sample.

Practical implications – The research results can be applied in the recruitment process. Research presents analyses of the relationship between work performance and its indicators which may be valuable for recruitment officer in order to predict retail, services work performance. In particularly it may be valuable for recruiting managers. Results of this work can provide the information about how much personality measurements are useful in providing managers work more efficiently. Moreover the results of this research can be also used for the evaluation of Big Five questionnaire validity.

Originality/Value – One of the critical organization’s success factors – personnel recruitment.

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Nowadays personal workers’ qualifications and requirement for every particular vacancy increasing simultaneously. Consequently, so competent and well-suited employee recruitment is becoming increasingly difficult. Accordingly we need more and more reliable screening methods and tools to predict the behavior of employees further assess whether the candidate will be an effective worker in the future. For this reason, studies that demonstrate the different methods of reliability and validity are crucial in addition to such a lack of research in our country. This research paper seeks to be an input to it.

**Keywords:** personality factors; Big Five personality factors; work performance; competences; personnel recruitment

**Research type:** research paper

**JEL classification:**
- M12 – Personnel Management
- M51– Firm Employment Decisions

**Introduction**

Nowadays, more and more popular in the professional recruitment and assessment of personality traits mentioned during the selection process. Naturally, the main goal of the organization are good employee’s results, which lead to organizational effectiveness, success and productivity (Hutman, 1999; Johnson et al., 2010). Personality measurements during recruitment had to regain positions over time. For instance, before beginning of the XXI century many professional approaches to the selection that was unfavorable (Hurtz and Donovan, 2000). This was primarily due to pessimistic conclusions made by researchers such as Guinion and Gottier (1965) and Scmitt et al. (1984). This scholars meta-analyses of the different personalities of the main selection techniques researchers concluded that personality tests do not have the required Prognostic validity, using them in the recruitment of personnel. This could be due to the following reasons: relatively weak analytical techniques, properly selected measurement instruments (mainly used psychopathological Inventory (MMPI) was not a theoretical course that would be based on the researchers’ findings, the provisions of that behavior is more determined by the situation, rather than personality traits (Murphy, 2005).

However in recent decades changing word in order to remain a successful organization in the new competitive environment, it is important to be able to follow innovation, to be able to evolve according to them and to adapt to new developments. For this reason, the organization draws attention to the internal human resources effectively organizations and other features, such as staff competence (Hogan et al., 2007).

Organizational leaders understand that the most important part of the organization’s resources are the people for their abilities and contributions, owns the largest part of the organization's success. For this reason, more and more attention is paid to the selection of employees. It is very important to select a worker who meet the job requirements, have the necessary knowledge, skills and abilities, everything that would allow him to effectively carry out the assigned task, i.e., have the necessary specific job competencies. *(In this work, we defined competencies as a group of inter-related personal characteristics, knowledge, abilities, skills and attitudes that are necessary for the efficient performance of the manager’s daily tasks (Berry, 2003).* Leading context of the changing labor market world requires methods how to make a right selection and improve future results (Koppes Bryan and Palmer, 2012).

In order to determine "which factors can predict job performance and which of these factors is most characteristic of certain professions, it is necessary to properly select the measuring instruments (Jenkins and Griffith, 2004). One of these measuring instruments
could be Big Five personality questionnaire. To find out what knowledge, skills and abilities required to perform work tasks and identify with these abilities, skills and knowledge related factors needed for analysis of work, time. Moreover, determine the selection criteria, which are usually individual competencies necessary for successful job performance (Raymark et al., 1997). Personality tests during the selection of the personnel are usually combined with other tests, which helps in assessing the potential employee’s personal traits and determine personal behavior type and nature of that particular behavior. Some personality and character traits may lead to job performance quality (Shaffer and Postlethwaite, 2013). Other aspects of personality provides a degree, any person may operate efficiently and become a useful member of the organization (Ekuma, 2012).

This study has identified the knowledge and skills (competencies) needed to perform manager’s tasks successfully. Also established links between managers needed competencies and Big Five-factor model of personality. In order to identify whether the measurement instrument (Big Five) can predict knowledge, abilities, skills, and attitudes (i.e., competencies) necessary for the efficient performance of the manager's work.

**Big Five personality model**

Scholars who developed strong basis of Big Five model agree that Big Five personality model is the universal model that can be used successfully to understand the structure of personality (Gosling et al., 2003; Gurven et al., 2013). Authors processing information about the personality factor also concluded that there are three or five major, independent of each other, personality dimensions (McCrae and Costa, 1999). These factors can be inherited and remains stable regardless of language, ethnicity, age or gender they are measured (Witt and Burke, 2003). Thus, according to Big Five personality model many of the individual human personality differences can be divided into five empirically based categories (Gosling et al., 2003). Big Five personality factors:

1. Integrity: scrupulousness and self-reliant;
2. Emotional stability - control of emotions and impulse control;
3. Extraversion factor - and the dynamism of dominance;
4. Peacefulness - cooperation and friendship;
5. Intelligence - the breadth of experience and curiosity factors (Gosling et al., 2003).

**Big Five personality model and organizational behavior**

Scientists to determine which personality factors can predict organizational behavior, use the Big Five personality model as a valuable conceptual tool (Juhasz, 2005; Rothmann and Coetzer, 2003; Ahmad et al. 2014). A large number of studies have attempted to link personality with organizational behavior and its results (Hurtz and Donovan, 2000; Blickle et. al., 2013). Barrick and Mount (1991) investigated the relationship between Big Five model of personality factors and performance criteria. Scholars came to the conclusion: that Conscientiousness factor can predict how the leader will assess employee performance and learning success (Barrick and Mount, 1991). In 1991 Tett et al. performed a similar study that found Big Five personality factors Prognostic model validity coefficients significantly higher than in Barrick and Mount (1991) research. Besides, they found that the intellectualism and placidity factors can also predict performance of the work (Jenkins and Griffith, 2004). Salgado (1997) found that Extroversion factor can predict managers and salesmen's success while Intelligence signals the professional learning success and Placidity factors -
professionals, managers, skilled workers success. (Salgado, 1997). Later in 1998 Vinchur et al. found that an extroversion factor can predict the success of the retail work (Vinchur et al., 1998).

Personality traits may provide for others, working with behavioral criteria:

• Career Success (Lounsbury et al., 2004);
• Work satisfaction (Smith et al., 2002; Judge et. al. 2002);
• Organizations circulation (Barrick and Mount, 1991);
• Customer service efficiency (Barrick et al., 2001; Blignaut et al, 2014);
• Teamwork and overall team effectiveness (Barrick et al., 1998; Reilly et al., 2002; Morgeson et al., 2005);
• Employee absenteeism (Judge et al., 2002; Fahr, 2010).

Judge and Bono (2000) found a correlation between the Big Five personality factors and the model of transformational leadership dimensions.

Leadership efficiency may be predicted in this aspects: 1) team performance; 2) the ability to develop effective leadership team; 3) to evaluate the effectiveness of leadership teams; 4) to identify leadership potential (Kierstead, 1998; Rothmann and Coetzer, 2003). Big Five personality model of contextual factors can predict job performance (Contextual performance) (Van der Linden et al., 2010). Conscientiousness and peacefulness, extraversion, emotional stability factors are related to the specific context of job performance dimensions (Montowidlo and Van Scotter, 1994; Hurtz and Donovan, 2000). Due to various authors, we can conclude that the Big Five personality factors related to organizational behavior.

Different professions require workers of various personality traits, abilities, and skills (Furnham, 2005). Every vacancy requires different individual characteristics that help employees perform more efficiently for a specific work functions (Reddock et. al., 2010).

Prognostic utility of personality measurement increases when the type of work and personality factors are compatible with person-centered analysis of the work of determining the knowledge, abilities, skills, and attitudes (i.e. competencies) needed for the efficient performance of a particular job (Moy and Lam, 2004). Knowledge, skills, abilities and attitudes are the main criteria in the recruiting procedure which helps select potentially the best employees. Especially these characteristics are significant compared with the more abstract characteristics such as personality traits, moral values (Rothstein and Goffin, 2006).

In this study, we identified the knowledge, abilities, skills, and attitudes (i.e., competencies) required for managers effective job performance. We investigated whether the Big Five model of personality factors were linked to the manager’s competencies, i.e., whether these factors can predict the success of the work of managers.

**Methodology of empirical research**

**Sampling of the study participants**

Samples: 70 employees: 67 women aged 22 to 33 years, 3 men aged 23 to 25 years old. 22 subjects with higher education, 26 Student, 15 - higher education, secondary education 7 subjects. All these companies, which have been under investigation belongs to one organization. Time employees worked in this company is from 1 to 7 years. Selection criteria are not: all were tested at the time managers working within an organization. Two questionnaires were used. Big fives questionnaire translated and validated by Zdanevičiūtė (2003). Also managers competency evaluation questionnaire. Managers competency assessment questionnaire was drawn up on the basis of the results of the work of managers.
The analysis of performed work had been already done by personnel specialists at the organization. For the analysis normal organization’s works performance questionnaire was in use. It was filled by working managers and heads of departments; interviews with workers, managers monitored daily activities. Found out what are the main responsibilities of this office (functions); What are the main tasks (who and what is performed). Found out how often a specified function is performed; as far as a specific activity manager takes time; how much effort is required to perform certain activities. These jobs were created on the basis of analysis of managers responsibilities. Using information contained in job managers, have revealed the main tasks, functions and requirements for a person employed in these passages.

- Primary functions for which performance of this position was established;
- Functions that are removed from the work records completely change the role of managers in the organization;
- The most common work-related functions, which are not subject to other employees;
- Important, but not daily activities;
- Work Performance Standards;
- Requirements for an employee manager job.

Based on this gained information, the basic competencies (knowledge, skills, abilities and behavior) necessary for successful managers work performance. Description of competences organized based on already existing competencies descriptions, created by particular personnel consulting organization. Competency description specifically designed for the every single position. Described competences were asked to assess for the experts: the longest working in the business managers (10), and the head of division (10).

The experts were asked how much each competency is important for effective manager do the work, perform tasks. Every competence they evaluated the Likert scale from 1 to 5. Between 1 and 2 - competence is irrelevant for this function; 3 - the average; from 4 to 5 - important and essential to the effective operation manager.

Treatment results (if 75% of the experts assessed the competence as an important, i.e., gave from 4 to 5 points it was selected as relevant important.) Were selected and subsequently measured at only the most important for efficient work of excellence manager.

Shift manager’s competencies by the immediate director of them. Immediate director was chosen because of doubtless information and knowledge about the fork of subordinates. Therefore, to assess subordinates work is direct responsibility of directors (Furtham, 2005) as far it was also experience at that particular organization. In addition, the immediate director’s assessment is more reliable, more concerned with external criteria of job performance than other sources of employee evaluations (Heidemeier, 2008).

The study was conducted in catering company. The study took place in the manager’s job evaluation. The main aim of the evaluation of managers - to find candidates for the vacant unit supervisor position. The collected information about the company employed managers. Manager’s competency assessment, added instructions, and set the return to the staff of the terms in separate envelopes mailed to respondents (heads of departments). The instructions stated aim of the evaluation, progress, ensuring the confidentiality of the envelopes had to be returned sealed. Managers, according to a list drawn up in advance were invited for an individual evaluation interview. After the interview managers Big Five questionnaire was
filled in and the California Psychological Inventory good impression scale (explained: it is a personality questionnaire and used, further information about the respondent collection, which can be important in making assessment decisions.

**Moderation of research**

Research was conducted in public catering company. The research took place during the usual manager’s work performance evaluation. The main aim of the evaluation of managers - to find candidates for the vacant unit supervisor position. Information about every manager employed in the company was collected for this evaluation and selection process. Every employed manager received managers competence questionnaire in separate envelope mailed to respondent. All respondents (managers) were asked to return envelope with questionnaire to their personnel department. The instructions stated aim of the evaluation, progress, ensuring the confidentiality of the envelopes had to be returned sealed. Managers, according to a list drawn up in advance were invited for an individual evaluation interview. After the interview managers Big Five questionnaire was filled in and the California Psychological Inventory good impression scale (explained: it is a personality questionnaire and used, further information about the respondent collection, which can be important in making assessment decisions.

**Reliability of the methods**

Reliability of Competency assessment questionnaire was evaluated by the alpha Cronbach. Reliability reflects the fact whether we will get the same results for the second time on the same instrument by measuring the same sample (Furtham, 2005). Gained Cronbach alpha value is 0.965 (N = 70). According to Anastazi and Urbina (2005), which argues that a truly reliable measurement instrument, the Cronbach alpha is greater than 0.8, is concluded, that Competency measurement is reliable.

**Analysis of the result**

**Big Five model of personality factors in the interface with the considered managers competencies**

**Conscientiousness**

To determine the relationship between Conscientiousness factor valued competencies of managers, we estimate the Pearson correlation. It was found a statistically significant correlation between Conscientiousness factor and Productivity, Reliability, Planning, Client orientation, Organizational, Planning, Result orientation competences. Productivity competence defines the rate of job performance: the ability to timely perform the work. These results can be supported by the fact that people with a high level of Conscientiousness factor are thorough, reliable, cautious, careful (Goldberg, pg cit., Witt, 2003). In addition, according to the John and Srivastava (1999), such persons are able to plan their time also able to comply with the rules and postpone the leisure activities in order to carry duties.

Reliability competency is related to person’s ability to perform tasks on time and determination to complete duties. Persons with a high level of Conscientiousness factor assessment are reliable, responsible and organize (McCrae, John, pg cit., Witt, 2003). Such
employees are motivated to do their job well (Barrick et al., 2001). Might be that these properties lead that managers with high Conscientiousness factor assessment perform and fulfill their responsibilities better than employees which represent lower Conscientiousness factor assessment.

Planning competency defines the ability to set goals, to delegate tasks, the ability to break down their activities in small steps, to form the operational plan. "Honest" workers are organizing, planning their activities, modeling priorities before taking the actions (John and Strivastava, 1999). Such persons are able to develop long-term plans (McCrae and Costa, 1999).

Customer – oriented competency describes ability to serve customer according to ones expectations and needs. Customer oriented manager are able to create both sided trust and respect based relationships. Moreover, such employees take responsibility about customer serve related issues due to meet organization and customer needs (Witt, 2003). Moreover, such persons tend to social protocol, controlling emotional impulses (John and Srivatsava, 1999), extreme conscientiousness is also negatively related to the impulsivity facet (Samuel et. al. 2012). Thus managers with a high level of Conscientiousness factor assessment will serve customers well and successfully deal with related issues.

Organizational competence is the ability to cope with three resources: human, material and financial. Organizationally competent person can easily select the most appropriate working methods and tools for current situation and coordinate a number of activities simultaneously in order to perform tasks (Witt, 2003). People with high conscientiousness level enough to catch errors in one’s own work, keep tasks and deadlines well organized, and follow relevant rules and guidelines (Carter et al., 2014). Depending on the results, it can be assumed that the assessment of managers with higher Conscientiousness factor assessment will have better work organization skills for those who have less of this trait evaluation.

Result oriented competency is the knowing that result is important for the organization and department, and having the provision to put all needed efforts to seek result (Barrick and Mount, 1991). Therefore, people with a high level of Conscientiousness factor assessment are focused on outcomes (Barrick and Mount, 1991). Such people are ambitious, demanding and disciplined (Gellatly, 1996; Guay et al.; 2013). Also work performance is better (Shaffer and Postlethwaite, 2013). It is also interesting to note, that Conscientiousness and organizational behavior is related through motivational variables (Barrick et al., 1998). In view of the results obtained, it can be assumed that the higher managers with higher Conscientiousness factor assessment will be more focused on results than with lower ratings.

In summary, the results showed a statistically significant positive correlation between the Big Five Factor Model of Conscientiousness and Productivity, Reliability, Planning, Customer-oriented, Organizational and Result – oriented competencies (Fig. 1).
** - Statistically significant differences were noted; the difference was statistically significant at \( p < 0.01 \).

**Figure 1. Conscientiousness factor and competencies assessed correlation**

*Agreeableness factor interfaces with the considered managers competencies*

In order to establish links between the Agreeableness factor and valued manager’s competencies, we estimate the Pearson correlation coefficient. It was found a statistically significant correlation between Agreeableness factor and Conflict resolution, Stress resistance and Cooperation competencies.

Conflict resolution competence is the ability to quickly understand the situation and find both – sided common solution with minimal confusion. Individuals with high level of Agreeableness factor are tend to resolve conflicts in cooperation, maintaining relations and social ties (Digmo cit. pgl. Murphy, 2005). Such persons are more likely to communicate with partners during conflict and after (Jensen-Cammpbell and Griazano, cit. Pg. De Raad and Perugini, 2002). Results implies that higher Agreeable factor of the managers lead to better conflict resolution skills.

Cooperation competence - the ability to work together with colleagues, approach them with respect and trust, honest relations and interests of their activities and their problems, and efforts to help solve them. Based on gained results can be assumed that managers with higher Cooperation estimates will tend to cooperate more effectively, than those who receiving a smaller cooperation factor, because people with high in agreeableness are friendly, tolerant, helpful, altruistic, modest, trusted, straightforward (Abdullah et al, 2013).

Stress-resistance competence is the ability to objectively respond to the challenges it faces. To remain calm in stressful situations and do not become emotional in conflict situations, becoming a vital and emotional. This competence allow person control emotions in particularly if person understands, that it may negatively effects relations and social ties (Graziano and Tobin, 2002). According to the results obtained it can be assumed that higher Agreeableness level leads to better manager's stress resistance which conclude calmer respond to difficulties and in conflict situation. These features are very important for a
manager at work, because every day, a person working in this position, experiencing a lot of stressful situations.

In summary, the results showed a statistically significant positive correlation between the Big Five factor model of Agreeableness and cooperation, conflict resolution and stress resistance skills (Fig. 2).

** - Statistically significant differences were noted; the difference was statistically significant at p <0.01.

**Figure 2. Agreeableness factor and valued managers competencies correlation**

*Extraversion factor interfaces with the considered managers competencies*

To determine the relationship between Extraversion factor and valued manager’s competencies we estimate the Pearson correlation. It was found a statistically significant correlation between Extraversion as Big Five factor and Initiative, Leadership Motivating (others) and Overall evaluation competencies.

Statistically significant positive correlation between extraversion Big Five factor model of initiative and competence. This competence is described as the ability to submit new proposals and ideas on how to improve the division of work and the ability to implement them in the workplace (McCrae and Costa, 1999). Also the taking the initiative to solve problems independently, assuming additional responsibilities (Hurtz and Donavan, 2000). Such people are constantly seeking new excitement and innovation (John and Srivastava, 1999), as well as they are energetic, ambitious, tend to contribute to the success of the work (Barrick et al., 2001). Moreover, such people are enterprising and energetic (Hogan cit pg. Barrick and Mount, 1991).

Leadership competence is the ability to have an impact on workers; provide them with the information necessary to promote the efficiency of the unit’s work, taking responsibility for their workers. Scientists point out that extroversion factor is related to social leadership (Costa and McCrae, cit. Pg. Judge and Bono, 2000). One of the most characteristic features of extraversion factor is the dominance and ability to influence others (Balthazard et al., 2002). Extroversion factor is associated with leadership abilities (Barrick and Mount, 1991). As pointed out by M. Barrick et al. (2001) extroversion factor is important in such activities, to be an advice, leadership, persuasion abilities (Barrick et al., 2001; Lee, 2012).

Motivating others is the ability to create a working climate in which employees try to work better and more efficiently. It is the ability to evaluate each employee, its properties and use this information to promoting the work of subordinates. Extroverted staff are able to express their thoughts clearly, is able to convince others and to influence them to others (Balthazard, et al., 2002). In addition, extroverted people are friendly, have good social and
communication skills tend to interact with the team (Morgeson et al., 2005). High extroversion factor estimates show that such a person is warm, attractive, positive person, goal-oriented, able to effectively communicate with other communication (Juhasz, 2005). In view of the results obtained, it can be assumed managers with high extraversion factor assessment, will be able to influence their subordinates to achieve a common goal, to create an efficient working climate, its dynamism and knocked others.

Statistically significant positive correlation between the Big Five personality model Extroversion factor and General competence assessment. The result claims that extraversion factor is related to personal success of the workplace, especially in the work to be social communication (Barrick and Mount, 1991). Moreover, the extraversion factor can predict the success of the work in occupations in which communicating with others must work others, gaining status and power (Barrick et al., 2001). Interpersonal communication manager at work occupies most of his working life. Need to interact with the customers as well as colleagues. In order to influence the work of department employees, among them, it is important to gain social status and power.

** - Statistically significant differences were noted; the difference was statistically significant at p <0.01.

Figure 3. Extraversion factor interfaces with the considered managers competencies correlation

Emotional stability factor interfaces with the considered managers competencies

To determine the relationship between Emotional stability factor and valued manager’s competencies we estimate the Pearson correlation. It was found a statistically significant positive correlation between Emotional stability as Big Five factor and Stress release, Customer – orientation, Desition manking and Conflict resolution competency.

Emotion stability and efficiency of the decision-making competence which is described as ability to make appropriate work related decisions independently. Ability to analyze the situation, using gained experience, state of logic and knowledge. Moreover is related with ability to predict decision-making consequences. High emotional stability employees are self-confident, have high self-esteem (McCrae and Costa, 1999). Such persons has better cope with various tasks (Juhasa, 2005).

This feature is important for managers, because it can help managers to make effective decisions. Gained results also presents the ascension that Emotionally stabile employees (managers) are able to make effective decisions.
Customer-oriented competency as well as it was described before present ability to serve customer according to one's expectations and needs. If this competence goes with emotions stability, it guarantees better manager's working results. Emotional stability factor describes the ability to control impulses, to deal with stress which is important at managers daily routine (Costa and McCrae, cit. Pg. Reilly et al., 2002). Managers interact with the customers usually require solving problems in conflict situations that require a worker to good stress management skills, ability to control emotions. In addition, the ability to be calm, safe, did not in depression and hostility (high emotional stability), can lead to effective interpersonal relationships with business partners and clients (Barrick et al., 2001). It can be assumed that the above-mentioned properties can affect the Orientation of the visitors of competence assessment. Emotional stability factor assessment, as reported by Barrick et al (2001), can provide customers with the efficiency of communication (Barrick et al., 2001).

Statistically significant positive correlation between emotional stability factor and Conflict Resolution excellence was found. Managers often face conflicts between organization staff and also between colleagues, that is why Conflict resolution competency is important. Ability to resolve the conflicts may be influenced by emotional stability factor. Workers with high emotional stability factor assessment is likely to maintain honest relations with others (Juhasa, 2005). In addition, such persons are calm, optimistic, not in the mood hostility, able to control their emotions and impulses (Costa and McCrae, cit. Pg., Reilly et al., 2002). These features can help managers to effectively shift to settle conflicts. Considering the results, we can assume that the shift managers conflict resolution efficiency affects the ability to control your emotions.

Statistically significant positive correlation investigated between the Big Five personality factor model of Emotional stability and Stress resistance competency. Stress resistance competence is described as the ability to react calmly and in objectively in difficulties. Remain calm in stressful and conflict situations. Emotional stability factor is described as an individual disposition to be optimistic, calm, and in a good mood (Witt and Burke, 2003). In addition, emotional stability factor can predict overall job satisfaction (Lee, 2012). Emotional stability factor can predict the work related to higher levels of work stress success (Barrick et al., 2001).

Big Five personality model of Emotional stability factor and Communication competence correlates each other. Communication competency supports person's written and oral communication efficiency. High communications competence enable person to clearly understand received information and also transfer information in in clear and understandable way for others. This means they are well familiar to the requirements of the situation and are able to respond calmly to the information received, and it quietly to others. Juhasa (2005), such individuals tend to maintain vital relations with others, to better cope with a variety of tasks stain.

Summarizing the results showed statistically significant positive correlation between the Big Five factor model of Emotional stability and efficiency of Decision making, Communication, Stress release, Customer orientation, Conflict resolution competences. This correlation is represented in Figure 4.
**Statistically significant differences were noted; the difference was statistically significant at p <0.01.

** Figure 4 Emotional stability factor and shift managers competencies correlation

*Intelligence factor interfaces with the considered shift manager competence*

To determine the relationship between Intelligence factor and valued manager's competencies we estimate the Pearson correlation. It was found a statistically significant positive correlation between Intelligence as Big Five factor and Initiative and Decision making effectiveness.

Statistically significant positive correlation between the Big Five factor Intelligence and Imitativeness was found. Initiative competence describes people who are curious, intelligent, looking for new experiences and new ideas. Such persons are creative, innovative (Witt and Burke, 2003). Considering the results, we can assume that the efficiency of initiative competence affect curiosity and innovation tolerance. Also efficiency of Decision-competence correlates with person’s intelligence. Higher assessment factor intellectualism people effectively learn from their experience, improve problem-solving skills, and effective decisions (Barrick el al., 1998). Scientists have found links between intellectualism factor and creative problem solving (George Zhou, pg cit., Barrick et al., 2001). Considering the results, we can assume that having a higher intellectualism factor leads to more efficient solutions than those with lower intellectualism factor assessment.

In summary, the results found that intellectualism is a statistically significant factor associated with these shifts managers skills: decision-making efficiency, initiative (Fig. 5)

** Statistically significant differences were noted; the difference was statistically significant at p <0.01.

** Figure 5 Intelligence factor and shift managers’ competencies correlation
Conclusions

Big Five Personality factors interface with particular evaluated manager’s competencies. Conscientiousness factor associated with productivity, reliability, planning skills, orientation to the customer, organizational skills, and orientation competencies. Agreeableness factor is related to conflict resolving and stress release as well as cooperation and communication competencies. Extroversion factor correlates with initiative, leadership motivation of other common competency assessment. Emotional stability associated with resistance to stress, orientation to customer, decision-making, conflict resolution competencies. Intelligence factors positively correlates with initiatives, decision making and problem solution competencies.

References


BRAND VALUE IMPACT ON COMPANY'S ECONOMIC VALUE ADDED EVALUATION MODEL

Abstract

Purpose – The aim of the paper is to examine how the brand value would influence economic value added (EVA) of the natural mineral water producers in Lithuania.

Design/methodology/approach – A research methodology composed of two main stages (brand evaluation and brand value impact on EVA). Factor analysis and multiple regression analysis are used to determine how the factors are formed and what their relative weights are. Brand value and the other factors influence on economic value added was assessed using multivariable linear regression model.

Findings – The results of research have showed that Lithuanian natural mineral water sector is mature market, dominated by two strong brands whose profitability are steady growing annually. The customer brand value of Lithuania natural mineral water sector is influenced by brand awareness and loyalty and financial performance of the brand is heavily dependent on market growth ability and marketing investments on the brand. It also drew the conclusion that sector company's brand value and profit before interest and taxes (EBIT) had positive influence and capital structure or weighted average cost of capital (WACC) has negative influence on EVA, indicating that these factors had an active influence on EVA. The intangible and tangible assets has poor negative or no influence on EVA. The other factors as size, growth ability and industry's return on equity should be evaluated further in other researches. The possible reasons were discussed later and some advice was given in order to increase the company's economic value.

Research limitations/implications – The research focused on Lithuania market and one sector. Although social and economic background of Lithuania is quite differentiates from western countries. The discrepancy of capital markets is also distinct. Therefore, it would be very useful to compare the research results with foreign countries, within different industries in the future studies.

Practical implications – The paper provides the opportunity to assess the brand value of SME's and evaluate other factors influencing EVA in process of company growth. According to the study strong positive relationship between the EVA, brand value and EBITA, negative - with the capital structure was observed. This is partly confirmed by foreign scientists on the survey findings. In particular, when assessing the company generated revenues, net profit, brand value dynamics show a positive trend to economic added value of the company. Therefore, some advice can be given in order to increase the company's economic value added.

Originality/Value – The research paper is the first paper in Lithuania investigating factors influencing EVA with a special focus on brand value. The evaluation model of brand value impact on EVA was created.

Keywords: brand value; brand equity and financial value; economic value added; influence factor analysis

Research type: research paper

JEL classification:
M30 – General (Marketing and Advertising)
M21 – Business Economics
G32 – Financing Policy; Financial Risk and Risk Management; Capital and Ownership Structure; Value of Firms; Goodwill

Introduction

The modern economy is affected by a variety of global change, which changes the nature of the business and affects the nature of its economic value-added factors. Brands are a

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company's most valuable intangible asset, and, over the past decade, managers at many firms have made brand development a top priority (Keller and Lehmann, 2006). The concept of brand equity incorporates intangible brand properties such as brand-name awareness, brand loyalty, perceived brand quality and favorable brand symbolism and associations. Brand appreciation leads to a competitive edge in the market and can affect the benefit received by the company – the increase of company's value. The value of the company is one of the post important things that stakeholders care about now (Stern and Steward, 1995). Furthermore, a competitive and successful company can create value and thus contribute to the general well-being in the society (Huang and Li, 2004). In various areas of the economy observed in intangible assets, including brand, the significance of the upward trend, which was triggered by information, innovation and the knowledge economy. This trend is clearly visible in acquisition of companies, mergers and restructurisations, the brand value has a significant influence on the transaction price. The intangible property for commercial transactions led to the valuation problem, because it is impossible to effectively dispose of the property without knowing its market value, so the economic value added (EVA) measure was introduced.

Economic value added (EVA), a new performance measure, has been paid a lot of attention in recent years. EVA is such a method that is viewed as an effective measure reflecting both the value of company and the interest of shareholder (Mäkeläinen and Roztocki, 1998). Many researches have shown that EVA better reflects the company's real economic profit than traditional performance shareholders (Stern and Stewart, 1995; Ameels et al., 2002, Lina and Zhilin, 2008). However, EVA of different companies is quite different even if their accounting profits are similar. How brand value and other factors influencing the company’s economic value added? This is this paper aiming to do.

Altogether there are many studies on influencing factors of EVA, but this kind of research is hardly seen in Lithuania. Lithuania as country with weak development of capital markets is quite different from western countries. So it is very important and useful to test whether the results of foreign studies apply to Lithuania. This paper aims to examine how brand value would influence economic value added (EVA) of the natural mineral water producers in Lithuania.

**Theoretical background**

Many studies have been done on the influencing factors of EVA (Stern and Stewart, 1995; O’Byrne, 1996, 2002; Ameels et al., 2002; Lokanandha and Raghunatha, 2006; Lin and Zhilin, 2008, Babin and James, 2010; and others). Steward et al. (1994, 1995) developed the EVA model. O’Byrne (1996) studied EVA’s explanatory content to market value and influencing factors. He found company scale, the positive or negative of EVA, and industry all had significant influence on the improvement of EVA's explanatory content. Their results indicated that the company's research on subsequent innovations, patent measures reflecting the company's research activity volume, and the closeness of R&D to science were responsibly associated with future performance of R&D-intensive companies. But they did not consider the growth of future EVA. Sougiannis (1994) analyzed the influence of R&D expenditure on the increase of the company’s future EVA. It showed that R&D expenditure had significant positive influence on the increase of future EVA. But he did not take other factors into account. O’Byrne et al. (2002) analyzed such factors as R&D expenditure, sale growth, goodwill, and industry revenue. They found that R&D expenditure, sale growth, and industry revenue had significant positive relationship with the growth of future EVA, but goodwill had hardly influence on it. They also pointed out that these factors would have some change in different industries. Boksberger and Melsen (2011) found that brand value is
positively associated with advertising expenses, operating margins and market share. Several studies have also explored the relationship between intangible assets and stock market performance, with Madden et al. (2006) but not brand value impact on EVA.

Currently, it is postulated that the basic purpose of company’s activity is a maximization of economic value added (EVA) (Babin, James 2010). The concept of economic value added mostly grounds on the calculation of operating profit, thus it only relates to the operating part of company’s activities, disregarding less important activity areas for company’s existence. Nevertheless, it includes other tax charges too. Therefore, it may be stated that it reflects the factual company potential in terms of value creation. Scientists, Lin Zhilin, (2008) states that company’s true economic profit differs from accounting profits, because it focuses on capital structure and return on invested capital.

\[
EVA = NOPAT - (WACC \times IC)
\]

Where:
- \(NOPAT\) – net operating profit after taxes,
- \(WACC\) – weighted average cost of capital,
- \(IC\) – invested capital.

The profit NOPAT in EVA formula is sensitive to the changes of clearly operating factors, which makes the category of the profit objective and reflects the real company potential stemming from its basic activity (Stern, 1999). In practice, NOPAT is the net operating profit after taxes, which is the profit before including the costs of activity financing from external capital but after decreasing it by the tax expressed in cash. NOPAT then may be indicated by correcting operating profit with tax charges. WACC allows to include the expectations of external capital providers for whom the minimal profitability of the capital engaged means the cost of external capital, expressed as its percentage. Moreover, WACC also contains the profitability expected by the providers of equity capital which is connected with the possibility of alternative engagement of equity capital. After including the expectations of external and equity capital providers measured by WACC, the capital engaged (IC) in the company is multiplied by WACC and the result obtained expresses the profit expected by investors (Michalak, 2010; 2011).

The maximization of economic value added is only possible when the company provides the profitability higher than the weighted average cost of capital for the capital invested. The company should then not only gather the primary resources, that is capital, but with its help also make such resources combination which would ensure the maximal return on invested capital. Therefore, even after achieving a positive operating result, the subtraction obtained may be negative. Then the company bears the economic loss. It concludes from the aforementioned that EVA is only positive when the subtraction between the actually achieved return rate on invested capital and the minimal return rate expected by stakeholders connected with the company, expressed by the weighted average cost of capital (WACC), is higher than zero. And the company value, measured by EVA, increases only when the profit realized is higher than the one expected by investors (Turek and Kowalska, 2013).
Research methodology

Based on Young and O'Byrne’s study (2010), it uses multi-regression method to analyze the relationship between EVA and influencing factors in Lithuanian natural mineral water sector. The regression model is set up as follows.

\[
EVA = \alpha + \sum_{i=1}^{n} \beta_i X_i + \epsilon
\]  

(2)

In formula (2), \(X_i\) represents the influencing factors, \(\alpha\) is constant, \(\beta_i\) is the coefficient of influencing factors, \(\epsilon\) is the residual ERROR and \(n\) represents the volume of influencing factors.

The regression model needs to meet two assumptions. One is that there is no significant linear problem among explanatory variables. The other is that there is no serial correlation problem among residuals. Variance inflation factor (VIF) and Durbin-Watson statistics will be used here to do the test. VIF is the measure to analyze whether variables have multi-collinearity problem. If VIF>10, it is believed that variables are high collinear. Durbin-Watson statistics is the measure to test whether residuals are serial correlated. Its value is between zero and four. If it is close to zero, it means positive serial correlation. If it is close to four, it means negative serial correlation. If it is close to two, it means no serial correlation (Lin and Zhilin, 2008).

EVA is related to not only the company's structure and characteristics, but also the industry. Usually there are many variables to describe the company’s characteristics, such as earnings per share, return on equity, prime operating revenue increasing rate, account receivable turnover, total asset turnover, inventory turnover, liability/asset ratio, current ratio, equity ratio, net asset per share, total asset, net assets increasing rate, total assets increasing rate. Variables describing the industry include industry earnings per share, industry return on equity, industry net profit increasing rate and industry rate of return on sale. All these factors will have some impact on EVA. But for our research, we refer to O’Byrne’s method and include 5 factors influencing EVA: adjusted net earnings (EBIT), the weighted cost of capital (WACC), total assets (TA), company size (ID), brand value (BV). The analysis of corporate brand value created and its relationship with the company’s value-added development and generate value, there is a problem that the Lithuania natural mineral water sector companies belong to small and medium-sized enterprises category, and size of the company (which has been calculated had to be removed from the model. It also decided for the sector variable, because all of these companies are owned by one of the natural mineral water sector. All these factors will influence EVA to some extent. Correlation test shows that the factors are correlated to certain degree. It will not be accurate to take regression analysis directly with all the factors. So the paper makes factor analysis to these factors first and abstracts common factors reflecting their common characteristic. Then it makes regression analysis using common factors as dependent variables thereby decreasing the error.

The data are based on the financial statements of 5 companies from Lithuanian natural mineral water sector, 2008-2014 years. Brand value of every company's dominated brand was calculated using modified Interbrand method (Zimmermann, 2011). EVA of each company for each year was assessed using 1 formula (Steward and Stern, 1996). EBIT, WACC were calculated using companies financial data and Lithuanian stock exchange market information.
Research results and findings

In order to analyze what influence the factors may have on EVA, it makes regression analysis with 4 factors as the dependent variables. The results of regression analysis are shown in Table 1.

Table 1. Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.865a</td>
<td>0.748</td>
<td>0.743</td>
<td>325653.915</td>
<td>1.531</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), BV, WACC, TA, EBIT
b. Dependent Variable: EVA

First, the results of significance test of regression model show F value is 225.157 and Sig. is 0.000 (see Table 2). It indicates that the regression model has significant statistic meaning. The coefficient of determination $R^2$ and adjusted $R^2$ are 0.748 and 0.743 respectively. It shows the regression model's good explanation ability and fitting effect is significant.

Table 2. Regression analysis model suitability indicators

<table>
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<td>Models</td>
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</tr>
</tbody>
</table>

a. Predictors: (Constant), BV, WACC, TA, EBIT
b. Dependent Variable: EVA

Second, it tests the dependent variables with variance inflation factor. VIF varies from 1.1 to 2.9 and is less than showing no multi-collinearity problem among dependent variables. In fact, these dependent variables come from factor analysis. They are orthogonal and irrelated. There is of cause nomulti-collinearity problem. Residuals are tested with Durbin-Watson statistic. The value is 1.531, close to 2, indicating no serial correlation among residuals (see Table 1).
Table 3. Coefficients of regression function

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
<th>95.0% Confidence Interval for B</th>
<th>Collinearity Statistics</th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Lower Bound</td>
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<td>Upper Bound</td>
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<td></td>
<td></td>
<td>Tolerance</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>VIF</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>277284.464</td>
<td>150646.413</td>
<td>1.841</td>
<td>0.046</td>
<td>-30376.556</td>
<td>584945.484</td>
</tr>
<tr>
<td>EBIT</td>
<td>0.850</td>
<td>0.043</td>
<td>1.042</td>
<td>0.999</td>
<td>0.763</td>
<td>0.937</td>
</tr>
<tr>
<td>WACC</td>
<td>-316408.203</td>
<td>94600.601</td>
<td>-3.345</td>
<td>0.002</td>
<td>-5096098.597</td>
<td>1232075.810</td>
</tr>
<tr>
<td>TA</td>
<td>-0.065</td>
<td>0.010</td>
<td>-0.503</td>
<td>0.598</td>
<td>-0.72</td>
<td>0.050</td>
</tr>
<tr>
<td>BV</td>
<td>0.610</td>
<td>0.030</td>
<td>0.500</td>
<td>0.024</td>
<td>-0.072</td>
<td>0.336</td>
</tr>
</tbody>
</table>

a. Dependent Variable: EVA

Regression analysis is made with factors as the dependent variables. The regression coefficients and the results of t test are shown in Table 3.

From the regression function coefficients to refine the value of multiple regression function:

\[
EVA = 277284.46 + 0.85 \cdot EBIT - 316408.20 \cdot WACC - 0.065 \cdot TA + 0.61 \cdot BV + \epsilon
\]

(3)

There: \( \alpha = 2772484.46; \ \beta_{EBIT} = 0.85; \ \beta_{WACC} = -316408.20; \ \beta_{TA} = -0.065; \ \beta_{BV} = 0.61; \ \epsilon = \text{standart error.} \)

According to the multiple linear regression analysis, the coefficients of the table, formulate conclusions on each of the indicators influencing EVA addict variable (Table 3).

**EBIT** has strong positive effect on EVA, Table 3 shows that the regression coefficient of 0.85 acquires meaning when t test reliability level (p-level) is 0.000. The conclusion: If the operating profit (EBIT) continue to grow, it is a strong positive effect on the company EVA indicators.

**WACC (weighted cost of capital)** has strong negative impact on the EMEA, because the WACC regression coefficient value Table 3 is -316408.20 the t test confidence level (p-level) is 0.000. This suggests a negative relationship between the WACC and EVA at a confidence level (p-level) 0.02. Thus, the decline in the weighted cost of capital, increases EVA. If the company’s equity is falling, while the borrowed capital is growing at a fast pace, increasing debt. Therefore, businesses need to monitor the debt-to-equity ratio (debt ratio), as the increase in WACC ratio (which is strongly associated with capital leverage), strongly affected EVA (economic value added)

**TA (total assets)** does not have an impact on EVA. Property regression coefficient value (see Table 3) is -0.065, when the ratio t test (p-level) 0.00. Although the result has passed the reliability test (p-level = 0.000), but the value is too small to lead to EVA. This can be explained by the fact that 97 percent of the assets of the variable composed of a material round. Natural mineral water sector enterprises, intangible assets are undervalued (which may consist of a trademark, human capital, in other words the intellectual capital of the company). It is for the calculation of some indicators show that although, according to reports, the company is increased, EVA value decreases. Compared with Young and O’Byrne (2002) study, they chose a windfall profit, as an expression of intangible assets, but their model, which also showed no connection.
**BV (brand value)** has a strong positive effect on EVA. Table 3 shows how the regression coefficient 0.61 acquires meaning when t test reliability level (p-level) 0.000. This indicates that a strong PZV has a positive correlation with EVA to indicate that the EVA leads to brand value. This explains why investments in brand value together increases the company’s economic value added.

The results correlate with the research results with foreign countries and studies support the concept that the brand value increase of a positive influence on the economic added value for the company. It can be argued that in this particular case, profitability and brand and EVA interdependence is strong enough. The negative relationship between the average weighted cost of capital and EVA reflects the many foreign research results (Lin and Zhilin, 2008; Young and O’Byrne, 2002) and indicates that the reduction of debt in the capital structure can be achieved by an increase in EVA, but with certain restrictions, that equity finance alternative for becoming significantly more expensive than external funding sources.

**Conclusions**

This paper empirically analyzed the influence factors of economic value added of Lithuanian natural mineral water sector with factor analysis and multivariable linear regression model. It drew the following conclusions: (1) Lithuanian natural mineral water sector is mature market, dominated by small and medium-sized companies and operated by two strong brands whose profitability is steady growing annually. (2) The factors of, the ability profit before interest and taxes (EBIT) and brand value (BV) had a positive relationship with EVA. It means these factors will have an active influence on EVA. (3) The factor, which represents capital structure (WACC) has strong negative impact. Thus rising debt ratio has negative effects on EVA. (4) Total asset had poor negative or no significant relationship with EVA. It’s believed that little attention paid to intangible asset and low transformation efficiency might lead to this. The other factors as size, growth ability and industry’s return on equity should be evaluated further researches.

When Brand value and EVA is used to evaluate the performance, the company could make the following efforts to create more economic value: (1) Improve production techniques and flows effectively. Then reduce product cost and increase sales to improve the company’s economic performance. (2) Increase production investment and expand the company size to realize scale economic benefit. (3) Decrease the debt ratio properly and increase the size of self-owned capital. So the company can keep a reasonable balanced capital structure without too high capital cost and too large financial risk. (4) Analyze market demand seriously and develop multi-investment so as to improve the company’s future development ability. (5) Pay close attention to brand value and investment to the marketing activities, as well analyze the development foreground. Then make an effective strategic decision for the company to help it decide whether to add investment, or maintain the status quo, or exit at the right time.

This research has focused on Lithuanian market and one sector. Although social and economic background of Lithuania is quite differentiates from western countries. The discrepancy of capital markets is also distinct. Therefore, it would be very useful to compare the research results with foreign countries, within different industries in the future studies.
References

SERVICE FAILURE RECOVERY AND CUSTOMER SATISFACTION IN NIGERIAN TELECOM INDUSTRY

Abstract

Purpose – Service failures are almost inevitable in service transaction because of the nature of service, as such service recovery strategies are meant to be designed in order to avoid or recover service failure. Customer complaint partly because of the need be treated fairly and partly in the long run to ensure that service performance improves. This paper attempts to find the effects of service failure recovery strategies on customer satisfaction in the Nigerian Telecom industry. Nigerian Telecom industry is chosen because of the prevalence incidence of service failure experienced by the consumer and because of the large number of consumers that are involved. Design/Methodology – This paper adopts a cumulative view of satisfaction which is influenced by prior satisfaction and post-recovery satisfaction. The study was conducted with 500 subscribers of mobile phones in a public higher institution. Hierarchical regression was used to test the hypotheses.

Findings – It was discovered that justice dimensions are mediators of prior satisfaction and post-recovery satisfaction for both satisfaction relating to service recovery and the organization. In developing long-term relationship with Telecom customers it is important therefore for Telecom organizations to create complaint platforms for the consumers as well as building on the justice dimensions.

Research limitations/implications – The study has been able to extend our knowledge of how service failure can be recovered within the African business environment. It provides an empirical based to understand service failure and possible recovery strategy in a fast growing service environment.

Originality/Value – The current study is an original study within the Nigerian business environment. The effect of service recovery strategies on Nigeria Telecom industry as far as it can be determined has not been extensively researched and more importantly, consumer satisfaction has static view in literature. This is related to all the justice dimensions.

Keywords: service failure; service recovery; customer satisfaction; justice dimensions

Research type: research paper

JEL classification: M30 – General (Marketing and Advertising)

Introduction

In modern competitive Telecom industry environment, most Telecom firms focus on maintaining customer satisfaction as necessary business strategy for retaining customers and sustainable growth. The continued process of customer satisfaction rests on the customers’ demand for value and is a function of the understanding of customers’ expectations. Customer retention and loyalty are greatly influenced by satisfaction (Karatepe, 2006), which significantly affect the commercial and financial outcomes of the organization (Shapiro and Nieman-Gonder, 2006). This indicates the importance of satisfaction to the growth, survival and success of the organization. Increasing revenue of service provider depends on repeat purchase of the service by the consumers. Continuous patronage by the consumers rest on the believe that their expectations will not only be met but can be exceeded as well. Where the consumers’ expectations are not met by the service provider customer dissatisfaction occurs.

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(Vázquez-Casiellesa et al., 2012). The inability of the service provider to meet the expectations of the consumers is therefore referred to as service failure.

Customer satisfaction is difficult to achieve for service organizations. This is so because mistakes and failures in the provision and delivery of service are inevitable. Mistakes and the difficulty of meeting customers’ expectation are as a result of the peculiar nature of service offering itself. This includes simultaneous consumption and production of services, high level of interaction between the consumers and the service providers (their staff and/or facilities) (Duffy et al., 2006; Patterson et al., 2006), which is sometimes referred to as inseparability of services provider from the service. Therefore, delivery failure cannot be avoided entirely (Shapiro and Nieman-Gonder, 2006) and this has serious consequences on customer satisfaction and leads to complaint and the firm efforts to make amends. Customers in the Nigerian Telecom industry have been experiencing various degrees of service failure, including connectivity problem, dropped calls (terminated calls), network break down and fluctuations, bombardment with junk and unsolicited SMS (Short Message Services), billing for unsolicited junk SMS, rigorous waiting time, poor customer services, unjustifiable billing systems and billing errors, voice mail, delay in SMS delivery and call diverts.

The Nigerian telecom industry has experienced tremendous growth in the last one and half decades as a result of deregulation in the industry. In 2001, government deregulated the telecom industry through removal of monopoly structure and by licensing private operators. Today, there are four licensed Global Systems of Mobile (GSM) services with several mobile fixed wireless companies Code Division Multiple Access (CDMA). The Nigeria telecommunication industry has expanded so greatly to become one of the fastest and largest in Africa with over one hundred and twenty nine million (129,391,392) GSM users by April, 2014 in a country of about 150 million population, and still growing with one of the highest fixed line revenue (NCC, 2014). According to National Communication Commission (NCC) a regulatory agency in charge of telecom industry, the telecom contribution to the Gross Domestic Product (GDP) increased from 1.91% in 2006 to 7.76% in 2013 and a teledensity of 1.89% in 2002 to 92.24% in April, 2014. The other interesting features of the Nigerian Telecom industry include mobile revenue rate increasing by 4.5% between 2010 and 2014. The industry has attracted Foreign Direct Investment of US$25.5 billion, local investment of US$5.86billion, and has generated licensing fee in excess of US$2.3billion. According to Oyeniyi, Abiodun and Osibanjo (2011) the telecom industry in Nigeria at the turn of the last decade was a very attractive market for investors. However, in the last few years the sector had been bedevilled by a number of institutional and policy challenges including power outrage, problem of right of way in laying of cables, constant changes in government policy, multiple taxation and insecurity among others (Businessday, 2014).

These challenges had led to several problems in the sectors particularly in respect of consumers’ satisfaction. Performance indexes obtained from NCC (2014) showed stack inability of the service providers to meet basic quality of services to consumers. See Table 1 below.
A review of the above table shows serious inability of the service providers to meet industry targets in all parameters. For example, only one provider is able to meet the industry target of call set up success rate (CSSR); only two providers each have a reasonable achievement in drop call rate (DCR) and stand alone dedicate control channel congestion (SDCONG) respectively. However, all the service providers failed woefully to meet industry target in traffic channel congestion (THCHONG). Therefore, the objective of this study is to find the relationships between service recovery strategies of Nigerian telecom firms and customers’ satisfaction. More importantly, this paper attempts to determine the relationships among perceived justice of service failure, service recovery as it relates to satisfaction and consumer behavioural intention.

There are a number of studies conducted on service recovery in literature; however, most of these studies were conducted in advanced countries of Europe and America, with few exceptions in Middle and Far East countries. As far as it can be determined fewer studies in this area had been conducted in Nigeria and in particular within the telecom industry. The telecom industry is selected partly because of its peculiar service nature. Large numbers of people are exposed to telecom service i.e. 129,391,392 consumers out of about 150 million population (82.3%) which translates to teledensity of 92.24% (NCC (2014)). Service failure recovery can be determined easily, more importantly, when most Nigerian telecom consumers have at least two SIM (Subscribers’ Identification Module) from two networks. This may be due to reasons of avoiding or eliminating issues of service failure. More importantly, as far as it can be determined few attempts had been made to study the relationships between service recovery and customer satisfaction.

Theoretical Background

The occurrence of service failure elicit consumers’ reactions in forms of complaining to the service provider, complaining to regulatory or external agencies, negative word of mouth about the service to other consumers, and/or switching to other providers (Zeithaml et al., 1996). Dissatisfaction occurs when there are shortfalls in the consumers experience when compared to his expectations. Dissatisfaction is strongly related to service failure. Service failure is the inability of the service provider to make available to the consumer promised level of service quality and performance and his inability to meet customers’ expectations (Zeithaml et al., 1996). The reactions of consumers to service failure vary greatly among consumers and also depend on the nature of service rendered. Service provider will naturally, prefers a dissatisfied consumer to complain to it rather than to take any other steps. When a
firm attempts to correct errors of operations and delivery, the customers are given an impression of a remedy which is called service recovery (Miller et al., 2000). This may help the service provider to redeem the service or make amends in correcting errors and enhance loyalty (Dabholkar and Spaid, 2012). When there are errors in provision of service, the perceived reactions of the service provider will help to determined if it is possible to recover the consumer or the consumer may decide to switch to other service providers. There is a strong link between satisfied customers and loyalty on one hand and loyalty and possibility of an increased sales and revenue on the other hand (Mattila et al., 2011; Zhu et al., 2004). Therefore it is important for a service provider to develop appropriate recovery strategies at the point of failure to recover the customer. The recovery strategies may take the form of any or all of the following: explanation, atonement, empathetic behaviour, prompt complaint handling (Siu et al., 2013).

Prior Satisfaction and Perceived Complaint Justice

It is possible for consumers to have pre exchange knowledge or experience about how previous customers were treated by the company. Such experience will affect present assessment of fair treatment and complaint justice by the company (Siu et al., 2013; Tax et al., 1998). Stauss (2002) and Kurtulus and Nasir (2008) believed that a level of ‘initial satisfaction’ precedes specific exchange problem/transaction and this can support positive perceived complaint recovery justice. Prior satisfaction is not based on just an exchange but on a series of past service encounter failures, which will form parts of the current experience and decisions. Values attached to prior experiences tend to have both positive and negative effects on the inadequacy of the present recovery strategy. Assimilation theory holds that information that is not consistent with consumers’ previous experiences is either ignored or not taken too seriously (Grégoire and Fisher, 2006). As such consumers’ trust and commitment to company and its services may not be affected when the service recovery strategies are inadequate and vice versa. From the above it is proposed as follows:

**H1: the higher the level of perceived value of priors’ experiences with a company, the stronger/weaker the negative effect of dissatisfaction with service recovery on behavioural intention.**

Perceived Justice and Satisfaction with Service Recovery

The first evidence of conflict between the consumers and the service provider in respect of service rendered is complaint. Complain occurs most times when there is negative difference between consumers input (time, resources, and promises of service performance) and the actual performance by the service provider (dos Santo and Ferandes, 2007). Complain process and established norms of seeking redress are expected to provide, when followed, a sense of fair deal. According to dos Santo and Ferandes (2007), a feeling of dissatisfaction will result from a violation of the complain process. There are three dimensions to perceived justice concept: distributive, procedural and interactive justice. In most service failure encounter, consumers expect some forms of compensation (Kau and Loh, 2006), which may be in form of any or a combination of some of the following: refunds, credits, apology, and replacements. Recovery actions are evaluated by consumers in light of the severity of service failure, whether the recovery action is fair or not.

In the exchange transaction each party is expected to incur cost and enjoy some benefits. Distributive justice deals with the fairness of the accrued benefits relative to the cost of the
exchange transaction. It relates to the consumer's perception of efforts made by the service providers to correct errors in delivery of services (Tax at al., 1998). The corrective measure may include replacing the offer or making a refund of the money expended. A number of studies in extant literature had linked distributive justice to consumer satisfaction of service recovery (Maxham and Netemeyer, 2002, 2003) and complain handling process (Homburg and Fürst, 2005; Karatepe, 2006). Procedural dimension deals with policies, methods and procedures that a complaint process will follow in order to deliver justice. In other words, procedural dimension entails the steps involves in dealing with problems that arose from the exchange transaction (Mattila, 2006). These steps include accessibility; flexibility; process control in terms of expressing concern; decision control; timing or speed of response to refund; and responsibility (Blodgett et al., 1997; Tax et al., 1998; dos Santos and Ferandes, 2007). A number of studies had linked procedural justice to customers' satisfaction (Homburg and Fürst, 2005; Karatepe, 2006). The manner of approach, response and communication of the employees to consumers during the complaint process is covered under interactional justice. Six elements are used to capture interactional justice and these are honesty, empathy, effort, politeness, apology and offer of explanation (Mattila, 2006). The elements of interactional justice are very important to determine overall fairness, customers satisfaction and consumer retention. The consumer perception of interactional justice has serious implications for the firm ability to recover dissatisfied consumer despite efforts to redeem errors in form of refund and replacement (Siu et al., 2013). From the above therefore, the following are proposed:

**H2:** The satisfaction of consumers' with service recovery strategy is affected by the perceived distributive justice of the firm

**H3:** The satisfaction of consumers' with service recovery strategy is affected by the perceived procedural justice of the firm

**H4:** The satisfaction of consumers' with service recovery strategy is affected by the perceived interactive justice of the firm

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**Figure 1. Conceptual Model**

**Satisfaction**

Extant literature is rich with studies on satisfaction some dealing with satisfaction on customer encounter with service rendered; specific exchange transaction; a product and several other aspects of marketing activities. Overall satisfaction of consumers towards
specific product or service or aspects of marketing functions is expected to provide an overview of cumulative contentment of consumers’ towards the object of satisfaction. This will include prior consumption or experience satisfaction, satisfaction during consumption and post consumption satisfaction (Olsen and Johnson, 2003). Prior experience satisfaction is expected to build trust of the consumers towards the service and service recovery strategy. This trust in turn will positively affect the consumer overall satisfaction to be higher after service recovery than before service failure (Maxham and Netemeyer, 2002; Vázquez-Casielles et al. (2010). Unresolved previous dispute affects not only subsequent trust but also satisfaction and repurchase intention ((Siu et al., 2013; van Doorn and Verhoef, 2008). The extent to which recovery strategies reduce consumers’ anger against service failure may help to reduce their frustrations and mediate between perceived complaint justice and future intention. As such we propose as follows:

**H5a: Satisfaction with service recovery strategy mediates the relationship between complaint justice and future intention.**

**H5b Satisfaction with organization mediates the relationship between complaint justice and future intention.**

**Research Methodology**

This study made use of cross-sectional method to collect data. Cross-sectional is used partly because it allows data to be collected from large number of respondents. Respondents considered for this study are those who had experienced service failure in the last six months. Nigerian telecom industry is characterized by various forms of service failure: poor voice quality, drop calls, incomplete calls, inaccessible and network failures etc. The operators offer toll free customer care centers and numbers to handle some of these issues. The Nigerian Telecom industry was chosen because it offers the widest spectrum of service failure by the largest number of people almost on daily basis. The study was conducted in Lagos, Lagos is Nigeria’s largest city in terms of population and commercial activities with the largest number of telecom subscribers. Students of Lagos State University (LASU) were used for this study. The choice of students for this study stemmed from the fact that most of them are youths that subscribe to various programmes on the different networks including: callings, text messaging, pinging, surfing and browsing internet etc. As such are more likely to experience service failure than the busy adults whose subscription may be limited or restricted to basic callings on the network. LASU main campus has a student population of about 6,000 students across various faculties and programmes of study. The sample is limited to students of Faculty of Management Science (FMS). FMS is the largest Faculty in LASU housing programmes such as Accounting, Banking and Finance, Business Administration, Public Administration, Industrial Relations and Personnel Management, Insurance, and Marketing.

Sample of 500 students were used for this study. The sample students cut across the eight programmes in the faculty. The questionnaire was administered to four hundred level students during a faculty-wide course. No incentive was promised other than the research is meant to find out their level of satisfaction and service failure of the industry. A survey method was used to collect data from respondents. Survey is used as it offers the opportunity to collect data from large number of respondents. The main criterion of participation for the respondents is that the respondent must have a mobile phone and the phone is regularly in use for any particular desired service from the Nigerian telecom companies.
### Table 2. Respondent Profile

<table>
<thead>
<tr>
<th>Metric</th>
<th>Number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Telecom Network</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MTN</td>
<td>152</td>
<td>48.2</td>
</tr>
<tr>
<td>AIRTEL</td>
<td>97</td>
<td>3.8</td>
</tr>
<tr>
<td>GLO</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>ETISALAT</td>
<td>66</td>
<td>21.0</td>
</tr>
<tr>
<td><strong>How long have you been using your network?</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than a year</td>
<td>11</td>
<td>3.5</td>
</tr>
<tr>
<td>2 to 4 years</td>
<td>111</td>
<td>35.2</td>
</tr>
<tr>
<td>5 to 7 years</td>
<td>96</td>
<td>30.5</td>
</tr>
<tr>
<td>7 years and above</td>
<td>97</td>
<td>30.8</td>
</tr>
<tr>
<td><strong>Service failure encountered with your network</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poor service failure</td>
<td>55</td>
<td>17.5</td>
</tr>
<tr>
<td>Network failure</td>
<td>28</td>
<td>8.9</td>
</tr>
<tr>
<td>Lack of network</td>
<td>11</td>
<td>3.5</td>
</tr>
<tr>
<td>Unfair tariff</td>
<td>76</td>
<td>24.1</td>
</tr>
<tr>
<td>Poor network coverage</td>
<td>30</td>
<td>9.5</td>
</tr>
<tr>
<td>Unsatisfactory customer care response</td>
<td>64</td>
<td>20.0</td>
</tr>
<tr>
<td>All of the above</td>
<td>50</td>
<td>15.9</td>
</tr>
<tr>
<td>Others</td>
<td>1</td>
<td>0.3</td>
</tr>
<tr>
<td><strong>Age</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than 18 years</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>19 to 25 years</td>
<td>279</td>
<td>88.6</td>
</tr>
<tr>
<td>26 to 30 years</td>
<td>22</td>
<td>7.0</td>
</tr>
<tr>
<td>31 to 45 years</td>
<td>10</td>
<td>3.2</td>
</tr>
<tr>
<td>45 years and above</td>
<td>4</td>
<td>1.3</td>
</tr>
<tr>
<td><strong>How often do you recharge your mobile phone?</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Once a week</td>
<td>20</td>
<td>6.3</td>
</tr>
<tr>
<td>As need arises</td>
<td>122</td>
<td>38.7</td>
</tr>
<tr>
<td>As often as possible</td>
<td>163</td>
<td>51.7</td>
</tr>
<tr>
<td>Once a month</td>
<td>10</td>
<td>3.2</td>
</tr>
<tr>
<td>Only when am given free recharge card</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td><strong>Which of these services do you use on your phone?</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Calls</td>
<td>28</td>
<td>8.9</td>
</tr>
<tr>
<td>Text messages</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Pinging</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Internet surfing/browsing</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>All of the above</td>
<td>287</td>
<td>91.1</td>
</tr>
<tr>
<td><strong>Sex</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>138</td>
<td>43.81</td>
</tr>
<tr>
<td>Female</td>
<td>177</td>
<td>56.19</td>
</tr>
</tbody>
</table>

Three hundred and fifteen copies of the questionnaire were retrieved and found suitable for use in this study. This gives us a response rate of 63%. Measurement items benefited greatly from extant literature on similar studies. For example, interpersonal, procedure, distributive justice were drawn from Tax et al. (1998), prior experience and satisfaction were drawn from Sirdesmukh et al. (2002) studies and behavioural intention from Zeithaml et al. (1996). Bio-data variables: age, gender, no of times the service was used, frequency of failure etc. were drawn as control variables as they have been noted to affected satisfaction. The scale was drawn on 7 point Likert scale from strongly agree (7) to strongly disagree (1).
reliability of the research instrument was determined using Cronbach’s Alpha coefficient with the use of SPSS. The overall reliability is 0.826 while composite item by item reliability of the main variables range from 0.772 to 839 see table 2. This falls within acceptable limit.

**Research Results and Findings**

Confirmatory factor analysis (CFA) was used on main dimensions of justice (distributive, procedural and interactive). According to Varela-Neira et al. (2008), the average variance extracted (AVE), the composite reliability (CR) coefficient, the correlation between all pairs of constructs, and the lambda standardised parameters measures can be used to determine measures of validity. These measures were evaluated and found to be within acceptable limits.

Correlation and Hierarchical regression analysis were used to test our hypothesis with the aid of SPSS. See Table 2 and 3. The psychometric properties of the scales used for analysis is presented in Table 2 with the Correlation coefficient: mean and standard deviation. All the variables of analysis are correlated/have some forms of relationships with the other variables. Though correlation coefficient do not show the relative impact of one variable over others its however, provides an idea of whether there are any relationships between or among the variables of interest.

**Table 3: Correlation Matrix**

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 - Prior</td>
<td><strong>0.815</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 - Interact</td>
<td>0.425**</td>
<td><strong>0.772</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 - Procedural</td>
<td>0.569**</td>
<td>0.678**</td>
<td><strong>0.769</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 - Distributive</td>
<td>0.266**</td>
<td>0.653**</td>
<td>0.610**</td>
<td><strong>0.797</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 - Recovery</td>
<td>0.257**</td>
<td>0.237**</td>
<td>0.269**</td>
<td>0.166**</td>
<td><strong>0.812</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6 - Organisation</td>
<td>0.434**</td>
<td>0.468**</td>
<td>0.606**</td>
<td>0.412**</td>
<td>0.137*</td>
<td><strong>0.839</strong></td>
<td></td>
</tr>
<tr>
<td>7 - Behavioural intention</td>
<td>0.206**</td>
<td>0.509**</td>
<td>0.511**</td>
<td>0.393**</td>
<td>0.262**</td>
<td>0.402**</td>
<td><strong>0.800</strong></td>
</tr>
<tr>
<td>Mean</td>
<td>4.407</td>
<td>5.342</td>
<td>5.232</td>
<td>4.924</td>
<td>4.856</td>
<td>4.398</td>
<td>5.309</td>
</tr>
<tr>
<td>Standard deviation</td>
<td>1.129</td>
<td>1.457</td>
<td>1.122</td>
<td>1.360</td>
<td>1.029</td>
<td>1.236</td>
<td>1.575</td>
</tr>
</tbody>
</table>

**Correlation is sig. at 0.01 level (2-tailed)**
**Correlation is sig. at 0.05 level (2-tailed)**

Hierarchical regression was used to test the hypotheses. This is used to determine if additional information regarding service failure improves customer satisfaction and behavioural intentions and the relative impact of each of the variables used to capture service failure on satisfaction. In the process of the analysis the variables were transformed in order to reduce skewness and outliers and to improve on the level of normality, linearity and homoscedasticity. The use of \( p < 0.001 \) criterion for Mahalanobis distance did not show any case of outliers and no case of missing data and suppressor variables were identified.
Table 4. Hierarchical Regression Model

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adj R Square</th>
<th>Std. Error of the Estimate</th>
<th>R square Change</th>
<th>F Change</th>
<th>Df1</th>
<th>Df2</th>
<th>Sig. F change</th>
<th>F</th>
<th>BETA</th>
<th>t-test</th>
</tr>
</thead>
<tbody>
<tr>
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<td>0.039</td>
<td>1.54402</td>
<td>0.042</td>
<td>13.816</td>
<td>1</td>
<td>313</td>
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<td>13.816</td>
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<tr>
<td>2</td>
<td>0.509&lt;sup&gt;b&lt;/sup&gt;</td>
<td>0.259</td>
<td>0.255</td>
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<tr>
<td>3</td>
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<td>0.324</td>
<td>0.317</td>
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<td>29.722</td>
<td>1</td>
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<td>0.000</td>
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<td>3.839</td>
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<td>0.324</td>
<td>0.315</td>
<td>1.30342</td>
<td>0.000</td>
<td>0.021</td>
<td>1</td>
<td>310</td>
<td>0.799</td>
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<td>-0.016</td>
<td>-0.255</td>
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<td>0.330</td>
<td>1.28962</td>
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<tr>
<td>6</td>
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<td>1.27774</td>
<td>0.014</td>
<td>6.771</td>
<td>1</td>
<td>308</td>
<td>0.010</td>
<td>28.204</td>
<td>0.152</td>
<td>2.602</td>
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</table>

a. Predictor: (Constant), Prior  
b. Predictor: (Constant), Prior, interact  
c. Predictor: (Constant), Prior, interact, procedural  
d. Predictor: (Constant), Prior, interact, procedural, distributive  
e. Predictor: (Constant), Prior, interact, procedural, distributive, recovery  
f. Predictor: (Constant), Prior, interact, procedural, distribute, recovery, organisation  
g. Dependent variable: Behavioural intention

The R Square gave us an idea of the impact of what each variable adds to the model. For example, after entering the variable in model 1 the overall model explains 4.2 of the variance and after model 2 variable is entered the overall model explains 25.9%. To determine the effects of each variables after we have statistically controlled for the effects of other variables we make us of the column R Square Change. For example the additional effect of interactive justice on behaviourial intention when other variables are controlled for is 21.7%, for procedural justice, distributive justice, satisfaction (recovery) and satisfaction (organization) the added values are 6.5%, 0.0%, 1.6% and 1.4% respectively. All are statistically significant p<0.005. The assessment of the relationships between behavioural intention and prior can be seen in model 1, F (1, 313) =13.82, p< 0.001, the bivariate correlation is 0.21 accounting for 4.2% of the variance, See Tables 3 and 4. After entering the second variable: interactive justice with behavioural intention the assessment is F (2, 312) =54.63, p < 0.001, R= 0.51 and R2 = 0.26. The incremental values for procedural justice is F (3, 311) =49.68, p <0.001, R = 0.57 and R2 = 0.32. For distributive justice the incremental values when all the others are statistically controlled is F (4, 310) = 37.15, p < 0.001, R = 0.57 and R2 = 0.32. In case of the relationship between satisfaction (recovery) and behavioural intention the incremental values are F (5, 309) = 31.90, p < 0.001, R = 0.58 and R2 = 0.34. For satisfaction (organization) F(6, 308) = 28.20, p< 0.001, R = 0.59 and R2 = 0.36.
Table 5: Hierarchical ANOVA Table

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1. Regression</td>
<td>32.937</td>
<td>1</td>
<td>32.937</td>
<td>13.816</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>746.187</td>
<td>313</td>
<td>2.384</td>
<td>54.634</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>779.123</td>
<td>314</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2. Regression</td>
<td>202.088</td>
<td>2</td>
<td>101.044</td>
<td>49.683</td>
</tr>
<tr>
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<td>Residual</td>
<td>577.035</td>
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<td>1.849</td>
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</tr>
<tr>
<td></td>
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<td>779.123</td>
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<tr>
<td></td>
<td>3. Regression</td>
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<td>Residual</td>
<td>526.699</td>
<td>311</td>
<td>1.694</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>779.123</td>
<td>314</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>4. Regression</td>
<td>252.460</td>
<td>4</td>
<td>63.115</td>
<td>31.895</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>526.663</td>
<td>310</td>
<td>1.699</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>779.123</td>
<td>314</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>5. Regression</td>
<td>265.223</td>
<td>5</td>
<td>53.045</td>
<td>28.204</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>513.900</td>
<td>309</td>
<td>1.663</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>779.123</td>
<td>314</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Predictor: (Constant), Prior</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. Predictor: (Constant), Prior, interact</td>
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<tr>
<td>c. Predictor: (Constant), Prior, interact, procedural</td>
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<td>d. Predictor: (Constant), Prior, interact, procedural, distributive</td>
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<td>e. Predictor: (Constant), Prior, interact, procedural, distributive, recovery</td>
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<td></td>
<td></td>
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<td></td>
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<tr>
<td>f. Predictor: (Constant), Prior, interact, procedural, distribute, recovery, organisation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>g. Dependent variable: Behavioural intention</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Discussion

Essentially the findings of this study are expected to draw attention to strategies of service failure recovery and its effects on behavioural intentions of the consumers. The effect of prior satisfaction was tested with perceived complaint justice, and the three dimensions of perceived justice concept to determine consumer satisfaction, seen from two perspectives (recovery and organization) as against consumer’s behavioural intentions. The results show that consumer who had had a positive pre transaction knowledge and experience are more favourably disposed to make a repeat purchase. They may also recommend the product/service to a third party. This may also depend on the type of dimension of perceived justice encountered by the consumer. The results of the study show that there is a strong positive relationship between prior experience with the service and eventual satisfaction with the recovery strategy and the organization on one hand and behavioural intention of the consumers on the other hand. It is also established that behavioural intention of the consumer has indirect positive relationship with interactive and procedural dimensions of perceived justice concept. Distributive dimension of perceived justice is not seen to have any effect on the behavioural intention of the consumers.

The likely reason for this may be though consumer accepts possible service failure and may equally understand when immediate recovery responses were not received for service failure. This notwithstanding, the dimensions of perceived justice indicates that consumers
also expect a great deal of empathy in the transaction process and in the service recovery process apart from receiving tangible results.

References


WHAT APPROACH IS SUITABLE FOR SOCIAL TECHNOLOGY RESEARCH?

Abstract

Purpose – to present scholarly viewpoint on social technology as a research field.

Design/methodology/approach – qualitative inquiry data analysis.

Findings – social technology structure observed in academic literature is presented; social technology research approached analyzed; hypothesis "'social technologies' is a research field from the viewpoint of research approach" checked.

Research limitations/implications – experts' composition international (not localized in a country or continent) and across various disciplines (in this case five: management, sociology, psychology, information technology and law), data collected via distant communication means.

Practical implications – findings contributes to understanding of social technology research as cognitive action relevant in both private and public sector.

Originality/Value – paper presents social technology analysis from the cognitive aspect.

Keywords: social technologies; research approach; qualitative study; experts

Research type: research paper

JEL classification:

O35 – Social Innovation
Y6 – Excerpts

Introduction

Social technology as a term popularity in academia grows fast, especially in relation to management, sociology, psychology, information technology and law disciplines. As social technology more and more is described as self-sufficient study object, question raises weather it is worth more than just a research object status, but a status of social technology field.

In this paper I seek to present scholarly viewpoint on social technology as a field. This goal is based on scientific practice that research field has a primary research approach. If it is possible to determine primary research approach to social technologies, then their existence as a field will be supported from the research method aspect.

Paper presents theoretical and empirical research. Theoretical part presents social technology structure observed in academic literature. Empirical part presents findings of qualitative study where social technology researchers are inquired about social technology research approach.

Structure of “Social technology”

Social technologies when analysed often loses their true meaning due to endeavours to separate the ‘social’ and the ‘technology’. So I would like to start this part with quote from M.

1 Mykolas Romeris University, Vilnius, Lithuania, tamosiunaite.ruta@gmail.com
Derksen research: “All technologies involve and shape the social” (Derksen et al, 2012). Authors also noted that studies based on engineering perspective often use the term “sociotechnical” to denote the social aspects of technology and the deeply technological nature of society (e.g., Bijker and Law, 1992; Hommels, 2005; Mager, 2009). Socio-technical systems consider both social and technical factors in creating evolving computer-based system that benefit from social media and user-generated content. Social technologies can also be characterized as enabling greater social participation in technology-mediated contexts (Boyed, 2007).

Social technology concept with society as object of engineering has early proposition from Owen (1813), where he discussed that people are just as machines, which with appropriate knowledge might be set for a particular design. Skinner (1948/1976) utopia and the communities based on it (Kuhlmann, 2005) supported Owen’s idea. Utopian ideas for society had critique against them (Popper, 1944/1966). Popper was not against social technology, only he warned the threat of dictatorship with such engineering.

Eugenics is viewed as a social technology of the past, which at the time was associated with great expectations, a technology that was based on recent breakthroughs in the science of genetics such as the ‘rediscovery’ of Mendel’s work. (Kevels, 1985; Koch, 2006). Eugenics in this sense was seen as a mechanism to shape, control, and eventually eliminates social problems (Gerodeti, 2006). Foucault (1978) termed “bio-politics” and part of an effort of social engineering that was deeply rooted in modernity and was indebted to a belief in science as progress.

Lewis (2007) supported the social engineering aspect of social technology, he emphasized, that predictive science need to be read as pieces of social technology: “each algebraic quantity in fact requiring an individual to negotiate and measure India’s agrarian landscape, thereby bringing the variability of social, racial and environmental relations to bear problematically on the abstraction and universalism of ‘the science of distribution’”.

Social media comment I would like to include from Vaičiūnienė et al (2013) research (with a little Kaplan and Haenlein (2010) comment) as they have made rather deep analyses in the area: Social media embraces various forms of electronic communication (as websites for social networking and microblogging) through which users create online communities to share information, ideas, personal messages, and other content (as videos) (according to Merriam-Webster dictionary). The common thought relating definitions of social media is the blend of information technologies and social interaction leading to co-creation of content and knowledge. Social media broadens the range of traditional media based on television, radio, newspapers and other print publications. Both traditional and social media have the ability to reach broad global audiences. However, social media does it at almost no cost or special resources. Social media has an inherent democratic nature and users can actively participate without special training or qualification or even permission to publish their material. Kaplan and Haenlein (2010) distinguish six different types of social media: collaborative projects, blogs and microblogs, content communities, social networking sites, virtual game worlds, and virtual communities.

Bryer (2013) referred to contemporary social media technologies which enable citizens, private interests, and others to form groups, develop coalitions, argue for change or influence, and then disband are powerful tools. they have been embraced by a variety of stakeholders, as well as by government agencies. Such technologies open the regulatory process to hundreds of thousands of citizens who never would have been able, or perhaps have even known, about the opportunity to offer their views before a new regulation is finalized.
In small and medium enterprise research Bennett and Segerberg (2011) where looking in to technologies used by the companies in order to ‘make’ the user stay, their research revealed a list of technologies which help to raise maximum rate of return and involvement online. The most involving online technologies according to them are as follows: sign up for e-mail list, Twitter hash, Twitter feed, Share this, RSS feed, E-mail a decision maker, Blogging account on site, Connecting on site, Delicious tag, Friend feeder, Post photo, Post audio, Facebook group, YouTube, Flyers, Contact organization, Sign a petition, Interactive map, Calendar, Donations.

Jarrahi and Sawyer (2013) emphasized the importance on local social networks (e.g. Yammer1) as they raise more active involvement by helping to keep information concentrated, ensuring easy communication with other members and feeling of belonging. “The Social technology network” (www.rts.org.br) has a similar understanding to one provided by Jarrahi and Sawyer (2013) “Social Technology comprises products, techniques and/or replicable methodologies developed in the interaction with the community and that must represent effective solution in terms of social transformation”. The idea of a Social Technologies Network comes from similar observations by many institutions that work with technological incentives and support to social projects in the country; the actual work being done in the social arena is done poorly in comparison to the magnitude of national social questions. Even if we recognize the value of successful experiences, whose visibility is increasing, we cannot forget to acknowledge that these given experiences are restricted to some social or communitarian settings, in a localized way. Joining the network is easy, but joining institution should take proactive part: To join, institution must complete the Manifest of Interest and send it by the portal or by mail. It is also necessary send the Join Term on the institution, and signing the CNPJ / a legal responsibility. Alternatively, requests by phone the printed version. Institution may join the network by means of four ways: maintainer, investor, articulator of social networks and re-applicator.

According to Chui et al (2012) social technologies distinguish themselves through the following three characteristics:
- they are enabled by information technology;
- they provide distributed rights to create, add, and/or modify content and communications;
- they enable distributed access to consume content and communications.

Hagen and Robertson (2010) summarized, that social technologies support activities like hanging around (Hart et al., 2008), messing around (Ito et al., 2009), looking at, looking up, and keeping up (Joinson, 2008).

Hagen and Robertson (2010) characteristics for social technologies:
1. The complex and variable contexts of use across which social technologies are manifest presents challenges for designers seeking to apply traditional contextual approaches or methods (according to Kurvinen et al., 2008).
2. Another central characteristic of social technologies is that their form emerges over time, through use. The idea that design is completed-in-use is a basic principle of Participatory Design (according to Henderson and Kyng, 1991).

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1 Yammer is an enterprise social networking tool provided as a third-party service with features such as user profiles and enterprise microblogging, it is used for private communication within organizations or between organizational members in predesignated groups, access to the network is based on a user’s Internet domain, so only people with email addresses from the same company can join the networks.
3. Social technologies also focus designers’ attentions beyond the construction of artefacts. As Brereton and Buur (2008) point out “participation is predicated upon delivering value to those who participate” (p.112).

Hearst (2009) presented eight categories of social technology: recruiting outside expertise; crowd sourcing; shared data; shared world / platform; collaborative creation; social networks; idea markets; implicit contributions.

In turn, the social technologies that are widely employed in an economy are enabled and constrained by things like laws, norms, expectations, governing structures and mechanisms, customary modes of organizing and transacting. (Nelson, 2007)

According to Skaržauskienė et al (2013) social technologies are all possible solutions to a problem, when any event a combination of tools and techniques (technology) support is replaced by the more socially desirable. It is practically any activity, which is replaced by the object. As a counterbalance to this general concept of social technologies, in research lays another concept, simplifying previously said on the theoretical approach to the study of innovative technical device. Narrowest aspect of social technologies understand how information and communication tools that have a range of economic, social, cultural or other public life processes available to each person: computers, smart phones, social networks and the like. Thus, the analysed object is called an instrument through which members of the public relevant information just become available. Both general and as narrowest conception of social technologies gives out the same keywords - social technology is what is innovative, efficient, and changes us past the usual social processes.

Above given content which represent social technologies is not finite. More researchers are working on social technology, though the scope of journal paper does not allow introducing all of them. The given ones were chosen to present in depth various and sometimes seemingly controversial viewpoints on what social technologies are according to scholars. In summary, the following content is hiding under “social technology” term in academic literature: Social engineering, Behaviour formation, Eugenics, Social software, IT programming, Online social networks, Social media, Social software and social media, Social software or social media, Social media technologies, Social technologies= new media, Internet based application. It may seem that content under social technology term vary significantly. Though in depth analysis allowed discovered content to be structured in a clear hierarchy (see fig. 1).
Structure of the concept ‘social technologies’ observed in academic literature revealed complex structure encompassing variety of elements. Further in the paper empirical research on social technology research approaches is presented.

**Methodology for qualitative analyses: method, participants, procedure**

Qualitative study results are more related to infirmity of selected cases than the number of cases (Patton, 1990). In this study in depth look in to a specific area is intended, so respondents were chosen with expertise in social technology area. Bitinas et al (2008) recommend that qualitative study may be sufficiently carried out with 5 to 30 respondents. Hickman and Longman (1994) noted that from 8th experts in the study results are affected by minimum input. Accordingly for my study I chose seven respondents – experts.

Data was collected during May 2015. Distant communication means were used. Structured interview was chosen due to two reasons: (a) due to geographical dispersion of experts, distant communication means were needed, structured interview is most suitable form in such case; and (b) convenience for experts – structured interview gives clear discussion topic, distant communication mean gives enough time to supply well considered answer. Experts were given control question "What is ‘social technology’?" in order to determine whether the expert understanding of the research object coincide with the understanding of the object by researcher. Experts vary by geographical and disciplinary representation (see table 1, line number and expert’s number in the code are not a match). Social technology understanding of researcher and respondents-experts coincide.
Table 1. Experts’ structure

<table>
<thead>
<tr>
<th>No.</th>
<th>Main discipline of research area of each expert</th>
<th>Represented institution</th>
<th>Represented country</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Information Technology</td>
<td>Johannes Kepler University Linz</td>
<td>Austria</td>
</tr>
<tr>
<td>2</td>
<td>Information Technology</td>
<td>CISTER</td>
<td>Portugal</td>
</tr>
<tr>
<td>3</td>
<td>Law</td>
<td>Mykolas Romeris University</td>
<td>Lithuania</td>
</tr>
<tr>
<td>4</td>
<td>Management</td>
<td>University of Leicester</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>5</td>
<td>Psychology</td>
<td>University of Groningen</td>
<td>The Netherlands</td>
</tr>
<tr>
<td>6</td>
<td>Sociology</td>
<td>Ohio University</td>
<td>United States of America</td>
</tr>
<tr>
<td>7</td>
<td>Sociology</td>
<td>TU Berlin</td>
<td>Germany</td>
</tr>
</tbody>
</table>

With the empirical research a hypothesis is checked: ‘social technologies’ is a research field from the view point of research approach.

Observations from empirical study

While giving their respective opinions on social technology research approach research methods were excluded (see table 2), on the other hand, three experts stated that there is no approach which would be the main, the defining or other ways attributable to social technology research: “This depends upon your research question!”; “I don’t think it determines how it can be studied.”; “Practically all research methods are applicable for social technology research”.

Table 2. Social technology research approaches according to experts

<table>
<thead>
<tr>
<th>Experts' code</th>
<th>Qualitative methods</th>
<th>Quantitative methods</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Interpretative analysis</td>
<td>Case studies</td>
</tr>
<tr>
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<td></td>
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<tr>
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</tr>
<tr>
<td>EC7</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table to presents summary of most often mentioned methods or methods with the strongest attribution to social technologies. Other methods were given as well. For example
experts (whose main discipline is information technologies) also named the following approaches for social technologies’ research: software-design methods; actor-oriented programming languages; automated data collection during people interaction; data mining to distil data into information; involvement of general public into technological experiments (for example deployment of edutainment and the study of people interacting with it). Expert with background in psychology also mentioned as appropriate to social technology research: philosophical; historical; sociological; anthropological; psychological; and economical studies.

Summarized experts’ views on social technology research approaches allow to deny the raised hypothesis; accordingly, based on this study social technologies from the viewpoint of research approach does not claim status of separate research field. Approaches named by management and sociology background experts all got included to the table of summary. This suggests a wondering, maybe social technology structury belong to management or sociology field. In order to give an informed answer to this wondering further study with experts from management and sociology is necessary.

**Conclusions**

Social technology term encompasses complex concept covering social engineering and social software elements under a hierarchical umbrella. This umbrella stands over such daily life elements as laws, mass media, social media platforms, etc. Social technology term is wide, old and covering all non-physical technologies. Accordingly, naming a particular social networking platform (e.g. Facebook or Twitter) as a social technology is a mistake. Social networking platform is a kind of social technology, and the particular platform is a tool. This misunderstanding in academic literature is rather often.

Single approach for social technology research was not revealed by experts, though this study presented interpretative analysis and questionnaire based surveys as mostly appropriate in social technology research.

Hypothesis ‘Social technologies’ is a research field from the viewpoint of research approach was denied in this research.

Further studies are in order to have a more in depth view on social technology status in structure of academic fields.

**References**

SOCIAL ACTIVITY OF STUDENTS OF TOMSK STATE UNIVERSITY IN THE CONTEXT OF POSTINDUSTRIAL SOCIAL MANAGEMENT

Abstract

Purpose – This paper explores the key features of modern personality in post-industrial society. It is revealed the presence of such characteristics of the Russian youth.

Design/methodology/approach – The article is a research of the social activity of youth in post-industrial society based on the example of Tomsk State University. The method of this research is survey. The tool of data collection were qualitative investigation (focus group with 10 students during 1.5 hours) and 2 quantitative investigations (the first one was divided by 8 closed and 3 opened questions and 280 persons were chosen as population-based study; the second one was divided by 9 closed and 7 opened questions and 600 persons were chosen as population-based study).

Findings – It is revealed the criteria of the information society in modern Russian youth. Based on the results of investigation it is indicated the importance to launch a specific mechanism for the preparation of modern active and independent young people with leadership potential.

Research limitations/implications – In the Russian scientific community is still debate regarding Russia's transition to post-industrial stage. In this regard, there are difficulties: some scientists' viewpoints are absolutely opposite. In addition, each sight is the reasonable. However, most researchers believe that Russia is merged in a new stage of its development. This paper reviewed the characteristics of the post-industrial society, as well as personality traits, which is its main component.

Practical implications – To achieve the objective of this article it was worked out a new student project the School of Progressive Youth "Perspective" based on the Tomsk State University.

Originality/Value – Nowadays the issue of social activity of youth is poorly investigated, both in Russia as a whole, and in the West Siberian region. The paper presents the results of research conducted by the author in this region. New results were obtained and certain conclusions were made.

Keywords: information society; post-industrial sociality; social management; students

JEL classification:
J13 – Youth
M12 – Personnel Management
G14 – Event Studies
D80 – General (Information, Knowledge, and Uncertainty)

Introduction

Nowadays, society is in a new stage of development: post-industrial/informational. It is characterized by certain key features, which include a shift in priorities towards the development of services, science and dissemination of intellectual labor and the formation of
the central role of the purposeful and independent person. The main objective of this research is to identify the characteristics of the post-industrial personality among Russian youth, as well as the development of the necessary mechanisms for training such young people.

Theoretical background

Each era of social development makes its conceptual foundations, defines a paradigm. 50-70 years of the twentieth century were initiated researches which led to a number of new features and phenomena, signs of the beginning of mankind's transition to a new stage of development (German, 2012).

Alvin Toffler defined stages in the history of mankind as three waves. The first wave directly characterized occurred 10,000 years ago agrarian civilization. The second wave - the industrial revolution, which resulted in an industrial society was formed (300 years ago) (German, 2012) "The third wave brings with it an inherent new way of life ..." (Toffler, 1999).

Subsequently, this new, post-industrial society has been called "information society". The authorship of term belongs to the American economist F. Mashlup (Martynova, 2011). The definition of a information society came to the conclusion that most of them date back to the concept of "post-industrial society." (Martynova, 2011).

The main features of the information society are the prevalence of knowledge production and distribution (Novejshij filosofskij slovar', 2013), and as a result, the spread of non-traditional material and intangible, intellectual resources: knowledge, science, organizations, and human capital (Pidojmo & Buturlakina, 2010); changes in the structure of the economy in the direction of increasing the share of services, science, education and culture; the formation of a consumer society (Martynova, 2011), which further allowed Daniel Bell talk about her service character, and consequently, the service society (Martynova, 2011; Bell, 2004).

Post-industrial economy not only changes the ways to meet the needs, but also creates the new one which wasn’t before felt as needed (Martynova, 2011).

The effectiveness of the organization, in turn, depends on the ability to not only meet all the requirements of consumers, but even exceed their expectations (Martynova, 2011; Dombrovskaja, 2010). Also noteworthy improvement of human aspirations in relation to the nature of their work in their views on the information society (Martynova, 2011).

Development of information technologies (eg the Internet) brought modern society to the next stage of development. According to N.A.Slyadneva, a new information regime is formed under the influence of information and improvement of information technologies of the global information and communication system, whereby modern society becomes permeable to any information pulses (Sljadneva, 2014). I.A.Gribov holds the same view, noting that the "information society moves from virtual reality to real virtuality" (Gribov, 2012).

Relative to the social structure of the information society talking about the emergence of a new class - meritocratic (Novejshij filosofskij slovar', 2013), information (Zhabin, 2014), creative (Volkov, 2012). M.Yang and Daniel Bell understand meritocracy as persons holding senior positions on the basis of their merit and abilities (Novejshij filosofskij slovar', 2013). A.P. Zhabin and Y.A. Afonin prefer the term "information", calling it a major capital modernized knowledge and creative thinking (Zhabin, 2014). However, most often in the literature there is such a thing as a "creative class".

The concept of the creative class is not sufficiently sociological grounds, there are no clear definitions and a list of features belonging to this class. In some ways the creative class is
similar to the middle class, which is also difficult to determine precisely as a class in the original sense of the word (Trubicyn, 2012).

Informatization and globalization predetermined emergence of a new type of personality that is relevant, especially in the west. Motivating factor personality change was formulated Daniel Bell: "Information - is power. Access to information is a condition of freedom" (Jakunin, 2012). Underlining the scale of changes in society at the end of the twentieth century, Toffler argues that they form new attitudes toward work, gender, nation, leisure, authority, etc. (Burmykina and Djatchenko, 2003).

Today we can identify the key characteristics of modern identity in a new social, which provides Z.P.Yahimovich in expanded form: "For man-made, dynamic, constantly evolving characteristic of Western civilization as the ideal type of activity, active man endowed with a rational, flexible, intelligent, capable to innovation and creativity. This creative, sovereign personality capable of independent decision to flexible plastic form relationships with others, the definition of their own life trajectory" (Yahimovich, 2010).

A crucial role in society takes youth who subsequently generates it. Therefore, the formation of post-industrial characteristics of the given category of the population occupies a single position in the formation meritocracy class. For a demonstration of their social activity, youth must possess certain personal qualities: dedication, perseverance, activity, curiosity, independence, responsibility, initiative; incorporated into political practice and public field (Samojlenko, 2013). Also necessary qualities such as willingness to leadership, dynamism, mobility, originality, sociability, mutual aid, and susceptibility to new creativity, and many others, are also characterized by a modern identity in post-industrial society.

Many authors recognize the central role of the individual in the post-industrial society (Yahimovich, 2010). This premise is logically leads to the idea that the role of the subject of management is gradually moving towards such actors (Martynova, 2014).

Based on the characteristics of modern society as an information, we can say that it is the effect of the mass knowledge makes it possible to transmit a plurality of control subjects (Martynova, 2011).

Sovereign and active individuals can build their relations only on terms of equality and dialogic. Accordingly, the object of control are "not people, as is commonly believed, and the relationships that are in constant change, where there are various events and phenomena in time and space" (Ivanov et al., 2001).

Due to the fact that the post-industrial society focused on the realization of human potential of its members (Stojanov, 2013), a new question arises about the purpose of social control. In previous theories objectives understood as efficiency, increase worker productivity, strengthening the position of the state or society as a whole, it is no longer acceptable to a sovereign entity (Turen, 2004). New targets should contribute to the creative potential of human (Bekov, 2002), the formation of a fully developed personality, social needs (Stojanov, 2013).

The basic principle of decision-making becomes participation, which is based on the active inclusion of employees and their representatives in the development, adoption and implementation of administrative decisions. The experience of many organizations shows the effectiveness of interactive planning (Lesnaja, 2014).

Research methodology

In the scientific literature characteristic of post-industrial society, mainly related to developed countries. Naturally the question arises: how much activity and independence
inherent in modern Russian youth to be able to talk about the preconditions for the development was "a service" model of social management. In order to identify the degree of autonomy in implementing its own life strategy and focus on improving its "Knowledge" of the potential among students of Tomsk State University were conducted 3 studies: one qualitative investigation and 2 quantitative investigations (survey of 280 and 600 students).

**Research results and findings**

The focus group method was used to determine the quality of results. The study was conducted in September 2013 among the senior students of Tomsk State University.

To achieve the goal of research was necessary to solve the following problems:

1. identify the main life goals respondents in the near future;
2. to identify the degree of independence of the respondents;
3. to determine the degree of social activity of the respondents.

During the investigation it was discovered that the main life goals of the respondents in the near future are the goals related to knowledge obtaining like further studying or post-graduation learning, which is consistent with the characteristics of "knowledge society", and the prospect of career growth. The majority of respondents answered the question "What do you think is the most important for yourself in the near future" in the following way: "education", "employment" and "career growth" and "self-realization". In this case, a third of respondents also stress the importance of family. Almost 30% of respondents highlighted education (Table 1).

**Table 1. What is the most important for you in the near future? (multiple answers)**

<table>
<thead>
<tr>
<th>Variants</th>
<th>The number of responses</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>employment, career growth</td>
<td>78</td>
<td>47</td>
</tr>
<tr>
<td>family</td>
<td>56</td>
<td>29,8</td>
</tr>
<tr>
<td>material welfare</td>
<td>14</td>
<td>8,6</td>
</tr>
<tr>
<td>education</td>
<td>49</td>
<td>33,7</td>
</tr>
<tr>
<td>self-realization</td>
<td>17</td>
<td>10,9</td>
</tr>
<tr>
<td>financial independence</td>
<td>3</td>
<td>1,6</td>
</tr>
<tr>
<td>sport, health</td>
<td>5</td>
<td>3,1</td>
</tr>
<tr>
<td>communications</td>
<td>4</td>
<td>2,4</td>
</tr>
</tbody>
</table>

In terms of self-reliance the following is revealed: the majority of respondents recognize the quality when they talk about solving their own problems.

The obtained data were confirmed in the results of a quantitative survey, which was also held in September 2013. The survey is based on responses received from respondents during the focus group sessions.

Quantitative survey results show the following. On the question “If you face problems in achieving your goals, how do you mostly solve them?” the below-stated results were obtained (Table 2):
Table 2. If you face problems in achieving your goals, how do you mostly solve them?

<table>
<thead>
<tr>
<th>Variants</th>
<th>The number of responses</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>By myself</td>
<td>117</td>
<td>65,00</td>
</tr>
<tr>
<td>With help of relatives/friends</td>
<td>70</td>
<td>38,89</td>
</tr>
<tr>
<td>Other</td>
<td>19</td>
<td>10,56</td>
</tr>
</tbody>
</table>

As can be seen from the table, independency in solving problems dominates among the other variants. Since it was a semi-closed question, almost 11% of respondents wrote their own response options, among which the most popular were “different” - 34.21%; “With the help of parents” - 27.37 “as appropriate” - 20.53%. Also, about 14% are based on the opinions of experts and colleagues.

Majority of the respondents recognize their social activity. So, in answering the question “Can you carry yourself to socially active people?” about 44% responded positively (Table 3).

Table 3. Can you carry yourself to socially active people?

<table>
<thead>
<tr>
<th>Variants</th>
<th>The number of responses</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>79</td>
<td>43,89</td>
</tr>
<tr>
<td>No</td>
<td>64</td>
<td>35,56</td>
</tr>
<tr>
<td>Difficult to answer</td>
<td>37</td>
<td>20,56</td>
</tr>
</tbody>
</table>

In that respect it would be legitimately to wonder how the students exercise social activity (Table 4).

Table 4. How do you exercise social activity?

<table>
<thead>
<tr>
<th>Variants</th>
<th>The number of responses</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participation in social activities at the University</td>
<td>47</td>
<td>59,24</td>
</tr>
<tr>
<td>Charity</td>
<td>7</td>
<td>8,23</td>
</tr>
<tr>
<td>Participation in public and political life of the country</td>
<td>23</td>
<td>29,62</td>
</tr>
<tr>
<td>Contacts with people</td>
<td>7</td>
<td>8,23</td>
</tr>
<tr>
<td>Cognition of the surrounding world</td>
<td>1</td>
<td>1,65</td>
</tr>
<tr>
<td>Help to friends</td>
<td>3</td>
<td>3,29</td>
</tr>
</tbody>
</table>

As the table shows, mostly students exercise such qualities through active participation in social activities at Tomsk State University, as well as in public and political life of the country.

Consequently, the characteristics of post-industrial personality peculiar to Russian youth similarly to the citizens of other developed countries.

Currently educational program of universities provide students with the necessary basic knowledge regarding their specialty. However, we are not just talking about the educated, but also about active youth in social and economic terms.

As the students demonstrated identification with independent and active personality in the survey, it is logically fair to assume that young people can be interested in organizations that help to reveal personal potential, and able to provide its members new knowledge and
information. Since the forefront holds such important qualities as sense of purpose, persistency, competitiveness, in such terms we can operate with the concept of “leadership”. (Skol'ko liderov v nashej strane, 2014).

Work, profession, career - this is something without what modern man can not imagine his life. In an industrial society, they have become so essential, and in the post-industrial -transformed without losing its significance. Under the influence of the technological revolution is changing occupational structure, as evidenced by the emergence of new professions and new forms of employment (Ostashkova, 2012).

It is especially difficult for a young man to identify him/herself in such dynamic world, for which the first step in formation and personal development becomes studying at university. At the age of 17-20 years the foundations of leadership potential are formed, which subsequently revealed in adulthood.

Thus, it becomes very essential for students to accumulate the necessary information, experience and surroundings of knowledgeable people at one place. Exactly for such independent and active people with a leadership potential a new project "School of progressive youth “Perspective” is developed. The school has already begun its work at Tomsk State University. The organization aim is to create a platform for training young leaders with an active lifestyle, interested in their own development, realization of potential and participation in public life of Tomsk region and the country as a whole, as well as to improve the competitiveness of young people on the labor market during studying and after graduating from the university.

For successful operation of the School of progressive youth “Perspective” it was necessary to create a carefully crafted training program which takes into account the views of the future participants of the organization. In order to generate such program another study is conducted with a questioning method. This survey was held among 600 students Tomsk State University in October 2013.

To achieve the goal of research was necessary to solve the following problems:
1. The identification number of potential direct participants;
2. The identification of the main forms of employment;
3. The identification of the activities;
4. The identification of program content.

As the main form of the work in school respondents chose the training sessions. To the question “In what form would you prefer to engage in school?” the following responses were obtained (Table 5):

<table>
<thead>
<tr>
<th>Variants</th>
<th>The number of responses</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Training sessions</td>
<td>249</td>
<td>41,5</td>
</tr>
<tr>
<td>Lections</td>
<td>60</td>
<td>10</td>
</tr>
<tr>
<td>Round tables</td>
<td>135</td>
<td>22,5</td>
</tr>
<tr>
<td>Master-classes</td>
<td>156</td>
<td>26</td>
</tr>
</tbody>
</table>

Regarding the content of the program we can judge based on the responses to the question “Which kind of topics would you prefer to visit?” Thus, out of all of the options the following variants were mostly highlighted: purposefulness, self-motivation, leadership, time management, communication psychology, self-management, teamwork, public speaking, effective communication, and project management.
Based on the responses received, we eventually drafted Schools activities.

Conclusions

On the basis of the research we can conclude that the significant part of students in Russia shows clearly expressed traits of post-industrial personality: independence in solving problems, the desire for knowledge and self-realization, social activism and leadership. This motivates the new management approaches in dealing with this social group and the development of a service products for the realization of personal potential.

References


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Manuscript should be 35000-50000 characters (with spaces) length.

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<td>The scientific research paper concentrating on annotating and/or criticizing the literature in a particular subject area.</td>
</tr>
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<td>The scientific research paper providing a general overview or historical examination of some concept, technique or phenomena.</td>
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</table>

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